

# 2018 Comprehensive Annual Financial Report

For Fiscal Year Ended  
August 31, 2018 and 2017



**CITY *of* EL PASO**

**EMPLOYEES RETIREMENT TRUST**

a.k.a. El Paso City Employees' Pension Fund

A Component Unit of the City of El Paso, Texas

# Comprehensive Annual Financial Report For Fiscal Year Ended August 31, 2018 and 2017

Robert Ash  
Executive Director

City of El Paso Employees Retirement Trust  
1039 Chelsea St.  
El Paso, Texas 79903  
(915) 212-0012  
[www.eppension.org](http://www.eppension.org)  
A Component Unit of the City of El Paso, Texas

Prepared by the Staff of the City of El Paso Employees Retirement Trust  
with assistance of the Fund's Professional Auditors,  
Actuary and Investment Consultants

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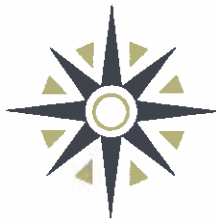
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**CITY of EL PASO**  
EMPLOYEES RETIREMENT TRUST

**February 1, 2019**

**Board of Trustees**

**City of El Paso Employees Retirement Trust**

**1039 Chelsea St.**

**El Paso, Texas 79903**

**Members of the Board of Trustees:**

Attached is the Comprehensive Annual Financial Report (hereinafter referred to as "CAFR") of the City of El Paso Employees Retirement Trust . This CAFR is more detailed than the Annual Financial Report booklet which we provide to you as a quick guide regarding the accounting and actuarial position of the Trust.

The Trust's office staff has compiled the information included in this report from several sources. These sources included the most recent audited financial statements and actuarial valuations. As you know the Trust is guided by the plan document found in Section 2.64 of the El Paso Municipal Code but also by Rules and Regulations, not inconsistent with the plan document. Therefore some of the information in this document comes from various policies or rules approved by the Board of Trustees. We believe the contents fairly reflect the current accounting and actuarial position of the Trust as has been reported to the Board by outside professional accounting and actuarial firms.

The CAFR includes five main areas of focus:

**Area One:** Introductory letter, Trust organization, consultants, investment managers and Summary Plan Description.

**Area Two:** Financial Section which includes the most recent current audit report from the Trust's Independent Auditors including the financial statements, notes to the financial statements and supplementary information.

**Area Three:** Investments denoting investment activity, policies, historical returns and miscellaneous investment schedules.

**Area Four:** Actuarial information which includes the results from the most recent actuarial valuation.

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#### **Area Five: Recent plan changes and data.**

This CAFR is designed to be a tool in order to gain additional understanding of the City of El Paso Employees Retirement Trust. . However, our staff remains available to answer any specific questions regarding the information contained in this report.

#### **Financial Information**

The most recent independent audit performed by the Trust's independent auditors, BKD L.L.P., contains a description of the services they provided and the methods use during the audit. Each year, as required by law, the Trust engages a professional audit firm to review the Trust's accounting information, internal controls and issue an opinion regarding the operations of the Trust and the related financial statements for the year. Included in their report are notes. The notes help explain some of the accounting treatment for certain aspects of Trust operations. In addition the Board in conjunction with Trust staff prepared a Management Discussion and Analysis (hereinafter referred to as "MD&A"). This discussion is also included in the annual audit. The MD&A highlights the financial operations during the year and identifies any significant changes made during the year.

The Trust's independent auditors have issued an unqualified opinion for many years. In addition there have been limited management comments made by the auditors as a result of their review. No management letter comments were received for the latest audit. The resulting opinions have provided reasonable assurance to the Board, plan participants and retirees that the financial statements present fairly, in all material respects, the net trust assets available for pension benefits and that the financial statements are in conformity with Generally Accepted Accounting Principles or "GAAP". There were no major accounting changes for the fiscal year ended August 31, 2018.

The Comptroller of the plan sponsor serves as Treasurer of the Trust and provides unaudited financial reports to the Board at each Board meeting. The Board is able to ask questions of the Trust Treasurer and staff regarding the Treasurer's reports. The Comptroller, or her representative(s), is also a non-voting member of the Trust's Investment Committee and attends such monthly meetings.

The Trust management provides for a system of internal controls with the purpose of providing reasonable rather than an absolute assurance that the financial statements are free from material misstatements Internal controls are evaluated by the Trust's independent auditors in the process of conducting the Trust's annual audit. While it is possible to implement certain additional internal controls the cost to incorporate these additional controls are at times not cost effective and therefore not implemented. The staff and Audit Committee of the Board discuss internal controls with the Trust's independent auditors during the entrance and exit conferences. Internal controls are considered using a cost/benefit analysis. In addition, the City's Internal Audit Department conducts reviews which include an assessment of the Trust's internal controls.

#### **Organization**

The City of El Paso Employees Retirement Trust is a multi-employer defined benefit pension fund which has been in continuous operation for over 70-years. While it is currently defined as a multiple employer plan the plan currently consists of one main employer which is the City of El Paso. The participants in the plan are governed by the plan document found in Section 2.64 of the El Paso Municipal Code.

The pension staff and some related agencies employees are also participants in the retirement trust. The plan is governed by a local ordinance passed by the City Council of the City of El Paso and can only be amended by the plan sponsor the City of El Paso. The trust provides benefits to retired employees of the City of El Paso except for those employees who participate in the El Paso Fire and Police Pension plans, temporary employees, some contract employees and elected officials.

The Board of Trustees of the Trust manages the Trust with the assistance of employees hired by the Board. The Board is comprised, pursuant to the plan document, of 2 elected members of the El Paso City Council, 1 retiree member, 4 elected employees who are eligible to participate in the Trust and 2 outside citizens who reside in El Paso, Texas. The 2 City Council members, the retiree representative and 2 citizen appointees are appointed by the City and serve for 2-year terms. The employee representatives are elected by Trust participants and serve 4-year terms. For board appointments after April 2018, no City Council, citizen, or retiree member appointee may hold a board position for more than 8 years throughout their lifetime. There are no limits on the number of terms in which an elected Board member may serve so long as they remain qualified to serve.

### **Investments**

The Trust's overall investment objective is to achieve the highest level of return with a prudent level of risk. Trust investments and asset allocations are developed by the Board with the advice from the Trust's professional investment consultant. The Trust invests with a long-term objective of funding retirement benefits over generations. The Trust has developed an investment policy that is monitored and modified from time-to-time as may be desirable in the discretion of the Board with input from the Trust's professional investment consultant.

Investments are made by the Board with the goal of achieving a long term return of at least the actuarial rate of return which is currently 7.5 percent. Another goal of the Trust is to make strategic allocations to maximize possible return with a reasonable risk tolerance by diversifying the investment options within the Trust's investment portfolio.

### **Actuarial Information**

The Board is required to perform an actuarial valuation at least every two years. The Trust hires an enrolled actuary for this purpose. The Trust's actuary, Buck Global, LLC provides the Board with critical information regarding how well funded the plan is at the time of the actuarial valuation. The actuary also assists the Board in maintaining reasonable assumptions in the actuarial valuations by performing Experience Studies every five years. Experience studies are conducted periodically with the last one completed in 2016. The Trust has a goal of maintaining an amortization period for any unfunded actuarial accrued liability which complies with the period required by GASB and the Texas State Pension Review Board which is currently twenty-five years. The Trust has requested that interim valuations be performed in the intervening years when a full actuary is not performed. The interim valuation is used by the Board to provide a less exact snapshot in time of the Trust's actuarial position. As of the end of the last fiscal year the amount of the unfunded actuarial accrued liability was \$201,453,137 and the funding period was 14 years. Investment returns for the past year were positive, up about 8.74 percent,



and exceeded the assumed investment return of 7.5 percent. The increase in investment returns over the assumed investment return rate is primarily responsible for the decrease in the years to amortize the unfunded liability by 3 years. The market value of the Trust's assets increased by about \$ 43 million dollars and the years to amortize the unfunded liability remained at 14 years. The funding ratio at the end of fiscal year 2018 was 80.3 percent. The Trust's current amortization period for the unfunded actuarial accrued liability is within the goals of the Trust. The amortization period is below that required by GASB and the Texas State Pension Review Board. However, Trust management continues to strive to reduce the unfunded actuarial accrued liability and the resulting amortization period.

In order to improve the financial position of the Trust the City of El Paso in consultation with the Board of Trustees created a second tier of benefits for those participants who were hired after August 31, 2011. At that time vesting and the amount of contributions were changed. Other changes were also made to the benefits of the second tier group of participants. Members of the second tier of benefits will not generally be able to retire under the new provisions until August 2018. Please refer to the actuarial section of the CAFR regarding additional actuarial details.

This CAFR is prepared by the staff of the Board of Trustees who in concert with the Board of Trustees, as management, is responsible for the information contained in the CAFR. Trust management, its auditors, actuary and investment consultants have worked to prepare an accurate CAFR and their efforts in this regard are greatly appreciated. Information included in this CAFR is believed to be comprehensive and made based upon the best information available as of the date of completion. Much of the information necessarily related back to the end of the most recent fiscal year. Should you have any questions regarding the information in the CAFR please do not hesitate to contact me or any member of the staff.

Sincerely,

A handwritten signature in black ink, appearing to read 'Robert Ash', written in a cursive style.

Robert Ash

Executive Director/Board Secretary

## **Board of Trustees**

Karl Rimkus  
Chairman  
Employee Representative

Rene D. Pena  
Vice Chair  
Mayoral Appointment

Robert B. Ash  
Secretary  
Executive Director

Rebecca Torres  
Trustee  
Employee Representative

Robert C. Studer  
Trustee  
Employee Representative

Mario Hernandez  
Trustee  
Employee Representative

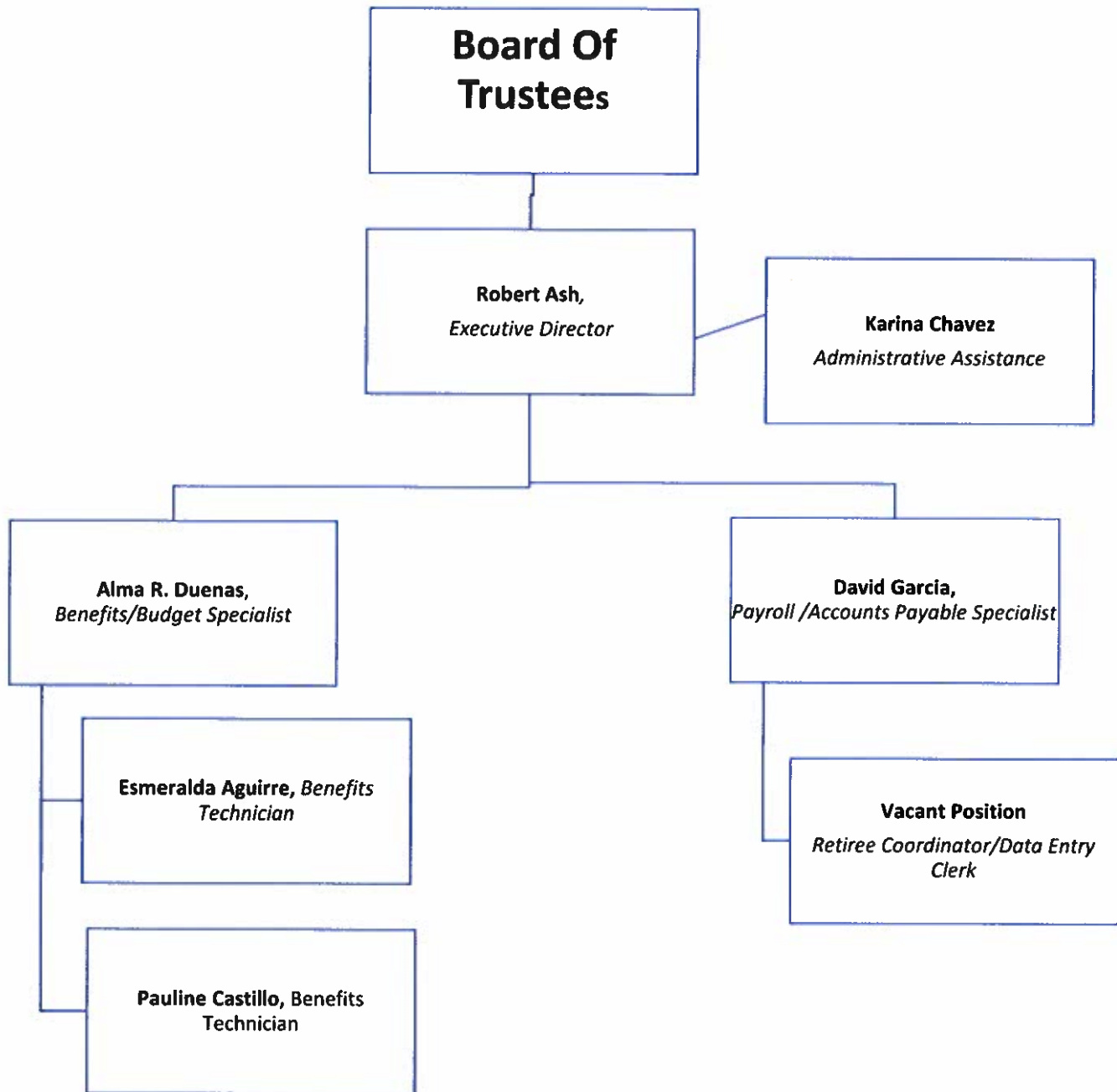
Presi Ortega  
Trustee  
Mayoral Appointment

Nick Costanzo  
Trustee  
Retiree- Mayoral Appointment

Sam Morgan  
Trustee  
City Council Representative

Casandra Hernandez  
Trustee  
City Council Representative

# Administrative Organization



# PROFESSIONAL SERVICE PROVIDERS

## **Actuary:**

- Buck Global, LLC

## **Auditors:**

- BKD, LLP

## **Custodian:**

- BNY Mellon Asset Services

## **Legal Counsels:**

- Eduardo Miranda, General Counsel
  - Pat Gordon, Tax Counsel
- Gordon, Davis, Johnson, Shane P.C.

## **Investment Consultant:**

- Callan LLC



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**El Paso City  
Employees' Pension Fund  
Texas**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**August 31, 2017**

*Christopher P. Morill*

Executive Director/CEO

## FINANCIAL SECTION

## Independent Auditor's Report on Financial Statements and Supplementary Information

Board of Trustees  
El Paso City Employees' Pension Fund  
El Paso, Texas

We have audited the accompanying basic financial statements of City of El Paso Employees' Pension Fund (Fund), a component unit of the City of El Paso, Texas (City), which are comprised of the statements of fiduciary net position as of August 31, 2018 and 2017, and the statements of changes in fiduciary net position for the years then ended, and the related notes to the basic financial statements, as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position restricted for pensions of the City of El Paso Employees' Pension Fund as of August 31, 2018 and 2017, and the changes in net position restricted for pensions for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Supplementary Information***

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The comparative summaries of revenues by source and expenses by type and administrative expenses and the schedule of investment manager expenses listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

***BKD, LLP***

Dallas, Texas  
February 14, 2019



# **El Paso City Employees' Pension Fund**

## **(A Component Unit of the City of El Paso, Texas)**

### **Management's Discussion and Analysis**

#### **Years Ended August 31, 2018 and 2017**

This discussion and analysis of the El Paso City Employees' Pension Fund (Fund) is for the fiscal years ended August 31, 2018 and 2017. This analysis provides a summary of the financial position of the Fund, including highlights and comparisons. For more detailed information regarding the Fund's financial activities, the reader should also review the actual financial statements, including notes and supplementary schedules.

#### **2018 Highlights**

Net position held in trust for pension benefits (net position) increased during the fiscal year 2018 by \$43.4 million.

The major reason for the increase in net assets was due to the performance of the capital markets, which resulted in net investment gain of \$65.4 million. Employer and plan member contributions totaled \$41.2 million, an increase of \$0.7 million over the previous fiscal year. The increase in contributions was primarily due to an increase in employee pay rates. The cash balance includes cash held by investment managers used for investments and cash at the fund's custodial bank used to pay for operation expenses.

Benefit payments made during fiscal year 2018 totaled \$58.1 million, an increase of \$0.1 million over fiscal year 2017 mainly due to an increase in number of retirees and larger benefit payments to the new retirees.

#### **2017 Highlights**

Net position held in trust for pension benefits (net position) increased during the fiscal year 2017 by \$53.3 million.

The major reason for the increase in net assets was due to the performance of the capital markets, which resulted in net investment gain of \$75.3 million. Employer and plan member contributions totaled \$40.5 million, an increase of \$2.2 million over the previous fiscal year. The increase in contributions was primarily due to an increase in employee pay rates. The cash balance includes cash held by investment managers used for investments and cash at the fund's custodial bank used to pay for operation expenses.

Benefit payments made during fiscal year 2017 totaled \$57.9 million, an increase of \$6.4 million over fiscal year 2016 mainly due to an increase in number of retirees and larger benefit payments to the new retirees as well as an \$800 cost of living adjustment per beneficiary. The cost of living adjustment led to a total payment increase of \$2.2 million.

## Financial Statements

The financial statements of the Fund include statements of fiduciary net position and changes in fiduciary net position available for benefits. The purpose of these statements is to present information about the Fund's present and future ability to pay benefits when they are due. These statements are presented using an economic resource measurement focus and the accrual basis of accounting. The financial statements also include notes that explain the history and purpose of the Fund, significant accounting policies, investment details, statutory disclosures and other required information regarding the financial position of the Fund.

## Summarized Financial Information

The following table displays the total assets, liabilities and net position of the Fund:

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>Changes 2018 – 2017</u>	<u>Changes 2017 – 2016</u>
Assets	\$ 825,795,487	\$ 779,979,862	\$ 724,891,259	5.87%	7.60%
Liabilities	<u>5,829,199</u>	<u>3,427,239</u>	<u>1,787,816</u>	<u>70.08%</u>	<u>91.70%</u>
Net position	<u>\$ 819,966,288</u>	<u>\$ 776,552,623</u>	<u>\$ 723,103,443</u>	<u>5.59%</u>	<u>7.39%</u>

Total net position increased by \$43,413,665, or 5.59%, during fiscal year 2018 to \$819,966,288. The increase in net position is primarily a result of the fair value of investment assets increasing due to positive performance of the capital markets during the current year. Total net position increased by \$53,449,180, or 7.39%, during fiscal year 2017 to \$776,552,623. The increase in net position was primarily a result of the fair value of investment assets increasing due to positive performance of the capital markets during the year.

The following table displays the changes in plan net position of the Fund:

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>Changes 2018 – 2017</u>	<u>Changes 2017 – 2016</u>
Contributions	\$ 41,192,201	\$ 40,481,412	\$ 38,256,360	1.76%	5.82%
Net investment income	<u>65,372,489</u>	<u>75,370,973</u>	<u>40,260,073</u>	<u>-13.27%</u>	<u>87.21%</u>
Total additions	<u>106,564,690</u>	<u>115,852,385</u>	<u>78,516,433</u>	<u>-8.02%</u>	<u>47.55%</u>
Benefits paid to plan members	58,094,939	57,972,792	51,554,209	0.21%	12.45%
Refunds	2,889,443	3,104,773	2,829,420	-6.94%	9.73%
Prepaid COLA payments	130,000	-	-	0.00%	0.00%
Administrative expenses	<u>2,036,643</u>	<u>1,325,640</u>	<u>1,417,530</u>	<u>53.63%</u>	<u>-6.48%</u>
Total deductions	<u>63,151,025</u>	<u>62,403,205</u>	<u>55,801,159</u>	<u>1.20%</u>	<u>11.83%</u>
Changes in net position	<u>\$ 43,413,665</u>	<u>\$ 53,449,180</u>	<u>\$ 22,715,274</u>	<u>-18.78%</u>	<u>135.30%</u>

Contributions increased during fiscal years 2018 and 2017 primarily due to increases in employee pay rates. Benefits paid increased during fiscal year 2018 due to an increase in the number of retirees and larger benefit payments to new retirees.

Administrative expenses increased during fiscal year 2018 related to an increase in custodial fees, legal fees and other operating expenses. During fiscal year 2017, administrative expenses decreased due to a decrease in consulting and actuary fees.

### **Financial Contact**

Any questions regarding the financial statements of the Fund should be directed to the Fund Administrator, 1039 Chelsea Street, El Paso, Texas 79903 or by telephoning (915) 212-0112.

**El Paso City Employees' Pension Fund**  
**(A Component Unit of the City of El Paso, Texas)**

**Statements of Fiduciary Net Position**

**August 31, 2018 and 2017**

**Assets**

	<b>2018</b>	<b>2017</b>
<b>Cash and Cash Equivalents</b>	<b>\$ 7,433,888</b>	<b>\$ 10,597,586</b>
<b>Receivables</b>		
Commission credits receivable	105,042	128,931
Due from brokers for securities sold	3,558,783	967,188
Employer contributions	1,047,510	947,003
Plan member contributions	667,228	596,022
Accrued interest and dividends	664,340	620,705
	1,584	-
Total receivables	6,044,487	3,259,849
<b>Prepaid Insurance</b>	17,360	21,857
<b>Investments, At Fair Value</b>		
U.S. government securities	32,086,839	27,104,666
Corporate bonds and notes	38,991,174	42,183,834
Absolute return investments	126,830,615	109,573,856
Corporate stocks	101,459,644	83,883,305
Bank collective investment funds	180,019,198	176,342,988
Commingled funds		
Fixed income	73,142,079	74,742,206
Corporate stocks	81,629,104	89,269,106
Private real estate	72,817,424	67,975,022
Private equity investments	62,394,830	57,103,830
Master limited partnerships	39,817,825	37,030,451
Total investments at fair value	809,188,732	765,209,264
<b>Capital Assets, Net</b>	3,111,020	891,306
Total assets	825,795,487	779,979,862

**Liabilities**

Due to brokers for securities purchased	4,777,992	1,715,974
Accrued expenses	946,165	726,570
Accrued drawdown	-	855,764
Unearned revenue – commission credits	105,042	128,931
Total liabilities	5,829,199	3,427,239
<b>Net Position Restricted for Pensions</b>	<b>\$ 819,966,288</b>	<b>\$ 776,552,623</b>

**El Paso City Employees' Pension Fund**  
**(A Component Unit of the City of El Paso, Texas)**  
**Statements of Changes in Fiduciary Net Position**  
**Years Ended August 31, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
<b>Additions</b>		
Contributions		
Employer	\$ 25,651,488	\$ 25,327,071
Plan members	15,540,713	15,154,341
Total contributions	41,192,201	40,481,412
Investment Income		
Net appreciation in fair value of investments	64,832,061	74,716,005
Interest	3,915,267	3,808,906
Dividends	3,186,719	2,582,152
Securities lending income	6,801	68,169
Investment advisor fees	(6,578,777)	(5,783,774)
Securities lending fees	-	(22,691)
Miscellaneous income/(expense)	10,418	2,206
Net investment income	65,372,489	75,370,973
Total additions	106,564,690	115,852,385
<b>Deductions</b>		
Benefits paid to plan members	58,094,939	57,972,792
Refunds	2,889,443	3,104,773
Prepaid COLA payments	130,000	-
Administrative expenses	2,036,643	1,325,640
Total deductions	63,151,025	62,403,205
<b>Net Increase in Net Position</b>	43,413,665	53,449,180
<b>Net Position Restricted for Pensions, Beginning of Year</b>	776,552,623	723,103,443
<b>Net Position Restricted for Pensions, End of Year</b>	\$ 819,966,288	\$ 776,552,623

# **El Paso City Employees' Pension Fund (A Component Unit of the City of El Paso, Texas)**

## **Notes to Financial Statements**

**August 31, 2018 and 2017**

### **Note 1: Reporting Entity and Summary of Significant Accounting Policies**

The El Paso City Employees' Pension Fund (Fund or Plan) is a single-employer Public Employee Retirement System (PERS) defined benefit plan administered by the Board of Trustees (Board) of the Fund and was established in accordance with authority granted by Chapter 2.64 of the *El Paso City Code*. The Fund is a component unit (fiduciary fund type) of the City of El Paso, Texas (City).

#### ***Basis of Accounting***

The accounting policies of the Fund have been established to conform to generally accepted accounting principles for state and local governments as promulgated by authoritative pronouncements issued by the Governmental Accounting Standards Board. The Fund is accounted for on an economic resources measurement focus using the accrual basis of accounting.

#### ***Valuation of Investments***

Investments are stated at fair value in the accompanying statements of fiduciary net position. The fair value of marketable investments, including U.S. government securities, corporate bonds and stocks, is determined by the latest bid price or by the closing exchange price at statements of fiduciary net position dates. The fair value of investments in bank collective investment, commingled funds, real estate investment funds and private equity limited partnerships are determined by the investment managers based on the fair values of the underlying securities in the funds. In general, the fair value of the underlying securities held in the real estate investment funds are based upon property appraisal reports prepared by independent real estate appraisers (members of the Appraisal Institute or an equivalent organization) within a reasonable amount of time following acquisition of the real estate and no less frequently than annually thereafter. In general, the fair value of the underlying securities held in the private equity limited partnerships are based on ASC 820 – *Fair Value Measurements and Disclosures*, and limited partnership financial statements are audited by independent certified public accountants. Bank collective investment funds are governed by Section 9.18 of Regulation 9 issued by the Office of Comptroller of the Currency and by other applicable regulations as defined by the Mellon Bank, N.A. Employee Benefit Collective Investment Fund Plan.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Net appreciation in fair value of investments reflected in the accompanying statements of changes in fiduciary net position represents gains or losses realized during the year plus or minus the change in the net unrealized gains or losses on investments. The change in net unrealized gains or losses on investments represents the change in the difference between the cost and fair value of investments at the beginning versus the end of the fiscal year.

# **El Paso City Employees' Pension Fund (A Component Unit of the City of El Paso, Texas)**

## **Notes to Financial Statements**

**August 31, 2018 and 2017**

### ***Property and Equipment***

Property and equipment is composed of land, building and improvements, furniture and fixtures and capitalized software. Property and equipment acquisitions are stated at cost less accumulated depreciation and amortization. Depreciation and amortization is charged to expense on the straight-line basis over the estimated useful life of each asset. At August 31, 2018 and 2017, capitalized costs had not yet begun being amortized.

### ***Securities Lending Transactions***

The Fund enters into securities lending transactions with broker/dealers for which fees are paid to the Fund and are recognized as revenue during the periods in which they were loaned. The Board may legally and contractually authorize the use of the Fund's securities for lending transactions. The securities involved in the lending transactions continue to be recorded at fair value in the accompanying financial statements. Parameters are established by the Fund's investment guidelines for securities lending transactions. These guidelines require that all securities lending occur with specified broker/dealers and that securities lending transactions be collateralized using U.S. issuer securities at 102% and non-U.S. issuer securities at 105% of the fair value of the securities loaned. U.S. issuer securities used as collateral are marked to market on a daily basis to evaluate whether the collateralization requirements of the fair value of investments is always maintained. The Fund may not pledge or sell the collateral securities except on default of the borrower and therefore are not recorded as assets in the accompanying financial statements. Because of this, the Fund administration believes there is some minimal credit risk associated with securities lending transactions. There is no loss indemnification provided to the Fund by the investment managers or broker/dealers.

### ***Revenue and Expense Recognition***

Plan member and employer contributions are recognized (additions) in the period in which plan member services are performed. Benefits and refunds are recognized when paid in accordance with the terms of the Plan. Expenses (deductions) are recognized as incurred.

The Fund's brokers accumulate commission rebates that are restricted for use by the Fund under agreements with the brokers for capital expenditures, research and development and investment-related expenditures. Proposed expenditures of these funds go before the Board for approval. Brokers provide the Fund detailed statements on commission rebates with credits earned and requested payments. Knowing that direct brokerage commission rebates are available, investment managers use these brokers as directed by the Fund's *Investment Rules and Regulations*. The available credits are reported as unearned revenue until such time as qualifying expenditures are made, in which time the use of the credits is reported as a reduction in the appropriate expense categories in the accompanying statements of changes in fiduciary net position.

**El Paso City Employees' Pension Fund  
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**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Fund's management to make estimates and assumptions that affect reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities and the actuarial valuation of the Fund's benefits at the date of the financial statements, and the reported changes in fiduciary net position during the reporting period. Actual results may differ from those estimates.

**Note 2: Description of the Retirement Plan**

Substantially all full-time employees of the City are eligible to participate in the Plan, except for uniformed firefighters and police officers who are covered under separate plans. Nonemployer contributions are limited to participating employees of the Fund.

The designated purpose of the Fund is to provide retirement, death and disability benefits to participants or their beneficiaries. The Fund is administered by the Board of Directors, which is comprised of two citizens, who are not officers or employees of the City, nominated by the mayor and approved by city council, four elected City employees, a retiree and two district representatives as designated by city council. The Board contracts with an independent pension custodian, investment managers, an investment consultant, an actuary and an attorneys to assist in managing the Fund.

The Fund's membership was as follows at August 31:

	<b>2018</b>	<b>2017</b>
Inactive plan members (or their beneficiaries) currently receiving benefits	3,174	3,011
Inactive plan members entitled to but not yet receiving benefits	181	83
Active plan members	4,345	4,217
Total plan members	7,700	7,311

Through August 31, 2018 and 2017, the City is the only contributing employer. The Fund pays direct administrative costs. The City provides indirect administrative support such as IT services. The Fund reimburses the City for various direct costs of processing pension checks, such as postage and supplies.



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Contribution rates for the Fund are based upon local statutes as enacted by the El Paso City Council and are not actuarially determined. However, each time a new actuarial valuation is performed, contribution requirements are compared to the actuarially determined amount necessary to fund service costs and amortize the unfunded actuarial accrued liability (using entry-age-normal cost method) over 30 years. As of the most recent actuarial valuation, the contribution rate was 23.00% of annual covered payroll.

Contributions were made as follows:

For the Years Ended August 31,	Employer Contributions		Employee Contributions		Total	
	Amount	Stated Percentage of Covered Payroll	Amount	Stated Percentage of Covered Payroll	Amount	Stated Percentage of Covered Payroll
2018	\$ 25,651,488	14.05%	\$ 15,540,713	8.95%	\$ 41,192,201	23.00%
2017	25,327,071	14.05%	15,154,341	8.95%	40,481,412	23.00%
2016	23,370,111	14.05%	14,886,249	8.95%	38,256,360	23.00%

The Fund is not required to maintain any legally required reserves.

Participation is mandatory for classified employees (except permanent part-time employees). For nonclassified employees, participation is mandatory for employees hired after July 1997. Classified employees include all persons who are permanent, full-time employees and are not otherwise excluded from the Fund.

Members who were first participants prior to September 1, 2011, accrue benefits based on Tier I provisions as follows:

- Participants who leave the Plan before completion of five years of service receive a refund of their contributions. Participants leaving the Plan with more than five years but less than 10 years of service may receive a refund of their contributions plus interest at 5.5% compounded annually.

# **El Paso City Employees' Pension Fund (A Component Unit of the City of El Paso, Texas)**

## **Notes to Financial Statements**

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Participants become fully vested after reaching 40 years of age and 10 years of service or 45 years of age and seven years of service. Normal retirement is the earlier of: (i) 55 years of age with 10 years of service, (ii) 60 years of age with seven years of service or (iii) 30 years of service, regardless of age. Participants who have met the minimum vesting requirements may retire, but defer receiving pension payments until they reach normal retirement age. Alternatively, such vested participants may elect an early retirement, which will provide an actuarially reduced pension benefit payment upon termination. Persons retiring and eligible to receive benefits receive monthly pension payments in the amount of 2.5% of average monthly gross earnings received by the employee during the three years immediately prior to retirement, or 2.5%, of the average monthly base salary received by the employee during the year immediately prior to retirement, or 2.5%, of the monthly base salary pay for the month immediately prior to retirement, whichever is greater, multiplied by the number of completed years of service, plus .2083 of 1% of such average for each additional completed or fractional part of a month of service.

Members who were first participants on or after September 1, 2011, accrue benefits based on Tier II provisions as follows:

- Participants who leave the Plan before completion of seven years of service receive a refund of their contributions. Participants leaving the Plan with more than seven years but less than 10 years of service may receive a refund of their contributions plus interest at 3% compounded annually.

Participants become fully vested after reaching 45 years of age and seven years of service. Normal retirement is the earlier of: (i) 60 years of age with seven years of service or (ii) 35 years of service, regardless of age. Participants who have met the minimum vesting requirements may retire, but defer receiving pension payments until they reach normal retirement age. Alternatively, such vested participants may elect an early retirement, which will provide an actuarially reduced pension benefit payment upon termination. Persons retiring and eligible to receive benefits receive monthly pension payments in the amount of 2.25% of average monthly gross earnings received by the employee during the three years immediately prior to retirement, multiplied by the number of completed years of service, plus .1875 of 1% of such average for each additional completed or fractional part of a month of service, limited to 90% of the three-year average final pay.

A pension benefit is available to surviving spouses and dependents. The Plan includes no automatic increase in retirement benefits. However, the Board, at its discretion after consideration of a recent actuarial review of the funding status, may provide ad-hoc cost of living or other increases in retirement benefits.

**El Paso City Employees' Pension Fund  
(A Component Unit of the City of El Paso, Texas)**

**Notes to Financial Statements**

**August 31, 2018 and 2017**

**Note 3: Net Pension Liability**

The components of the net pension liability of the City at August 31, 2018, were as follows:

Total pension liability	\$ 1,024,379,167
Plan's fiduciary net pension	<u>819,966,288</u>
City's net pension liability	<u>\$ 204,412,879</u>
Plan's fiduciary net position as a percentage of total pension liability	80.05%

***Actuarial Assumptions***

The total pension liability as of August 31, 2018, was determined based on July data using the following actuarial assumptions:

Cost of living benefit increases	None
Inflation	3.0%
Salary increases	3.0% , average, including inflation
Investment rate of return	7.5%, compounded annually, net of expenses
Actuarial cost method	Entry-age - normal-level percentage of pay
Asset valuation method	Plan invested assets are reported at fair value

Mortality rates for non-disabled participants are based on the RP-2014 employee tables with Blue Collar adjustment projected to 2030 using Scale BB. Mortality rates for disabled participants are based on the RP-2014 Tables for Disabled Lives.

The actuarial assumptions used in the September 1, 2018, valuation were based on the results of an actuarial experience study performed in 2018.

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The long-term expected rate of return on pension fund investments was determined using a building-block method in which best-estimate ranges of future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension fund's target asset allocation as of August 31, 2018, (see the discussion of the pension plan's investment policy) are summarized in the following table:

<b>Asset Class</b>	<b>Long-term Expected Real Rate of Return</b>
Domestic equity	8.2%
International equity	6.9%
Fixed income	2.0%
Real estate	4.6%
Absolute return	3.8%
Private equity	11.7%
MLP	8.2%

***Discount Rate***

The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and the City will be made at the current contribution rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension fund investments was applied to all periods of projected benefit payments to determine the total pension liability.

***Sensitivity of the Net Pension Liability to Changes in the Discount Rate***

The following presents the net pension liability of the City's calculation using the discount rate of 7.5%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate:

	<b>1% Decrease (6.5%)</b>	<b>Discount Rate (7.5%)</b>	<b>1% Increase (8.5%)</b>
City's net pension liability	\$ 322,643,310	\$ 204,412,879	\$ 104,487,936

# **El Paso City Employees' Pension Fund (A Component Unit of the City of El Paso, Texas)**

## **Notes to Financial Statements**

**August 31, 2018 and 2017**

### **Note 4: Deposits, Cash Equivalents, Investments and Security Lending**

The Fund's cash equivalents and investments are managed by various investment managers who have discretionary authority over the assets managed by them, within the investment guidelines established by the Board, under contracts with the Fund. The cash equivalents and investments are held by the Fund's custodian in the Fund's name. The cash equivalents and investments are uninsured and generally consist of short-term securities, U.S. and foreign government securities, domestic and foreign corporate debt and equity securities, real estate trusts and financial derivatives. Certain investment managers have invested in certain bank collective investment funds, which invest primarily in U.S. corporate stocks and government bonds. The bank collective funds may also invest in foreign exchange contracts, stock index futures and temporary collective investment funds and may enter into collateralized securities lending transactions. Certain investment managers also invest in private equity limited partnerships.

Through adherence to the Fund's Investment Rules and Regulations, management attempts to limit or mitigate certain risks. Certain of these requirements are listed below:

- **Large Cap Index Equity Managers** – Investment is passively managed and is made using commingled funds. As such, the investment guidelines are governed by the fund's prospectus. Permissible investments are S&P 500 Index commingled funds or exchange-traded funds (ETFs).
- **Large Cap Dynamic Managers** – Investment is made using commingled funds. As such, the investment guidelines are governed by the fund's prospectus. The portfolio will actively allocate assets across the equity, fixed income and cash markets of the U.S. The assets of the portfolio may be invested in securities, derivatives and a combination of other collective funds. Long and short positions in financial futures, options on financial futures, index options, exchange-traded options and over-the-counter options, may be used.
- **Small/Mid Cap Equity Managers** – Under current policies, the portfolio will invest primarily in equity and equity-related securities of issuers that are located in the United States with market capitalizations greater than \$500 million and under \$15 billion; the market capitalization of certain securities may be less than or greater than this range at times. The portfolio may invest in publicly traded stocks of U.S. corporations, American depositary receipts (ADRs), publicly traded stocks of foreign corporations listed on U.S. stock exchanges, ETFs and short-term investments, money market instruments or equivalent. The maximum position size in any one company will be 5% of the portfolio value at the time of purchase and shall not exceed a maximum appreciated position size of 8% of the portfolio value. Leverage, short sales and buying and selling on margin are not permitted.

# El Paso City Employees' Pension Fund (A Component Unit of the City of El Paso, Texas)

## Notes to Financial Statements

August 31, 2018 and 2017

- **All Cap Equity Managers** – Under current policies, the portfolio will invest primarily in equity and equity-related securities of issuers that are located in the United States with market capitalizations that span the broad equity market in a concentrated manner, generally with 20 – 80 holdings. The portfolio may invest in publicly traded stocks of U.S. corporations, ADRs, publicly traded stocks of foreign corporations, ETFs and short-term investments, money market instruments or equivalent. Leverage, short sales and buying and selling on margin are not permitted.
- **International Equity-Developed Country Index Managers** – Investment is passively managed and is made using commingled funds. As such, the investment guidelines are governed by the fund's prospectus. Permissible investments are MSCI EAFE Index commingled funds or ETFs.
- **International Equity-All Country Managers** – Investment is made using commingled funds. As such, the investment guidelines are governed by the fund's prospectus. The portfolio will invest primarily in equity-related securities of issuers that are located in, or that do significant business in, countries other than the United States, including emerging market countries. The portfolio will invest in securities denominated in the currencies of a variety of countries, including emerging market countries. The maximum position size will be 6% in any one company. The maximum position size will be 35% in any one country. The maximum emerging markets weight is the MSCI ACWI ex-US IMI Index weight plus 15%.
- **International Equity-Emerging Markets Managers** – Investment is made using commingled funds. As such, the investment guidelines are governed by the fund's prospectus. The portfolio will invest in equity and equity-related securities of at least 80% of its assets in issuers that are located in, or that do significant business in emerging market countries. The portfolio will invest in securities denominated in the currencies of a variety of countries, including emerging market countries. The maximum position size will be 6% in any one company. The maximum position size will be 20% in any one country.
- **International Equity-All Country Small Cap Managers** – Investment is made using commingled funds. As such, the investment guidelines are governed by the fund's prospectus. The portfolio will primarily invest in equity and equity-related securities of issuers that are located in, or that do significant business in, countries other than the United States, including emerging market countries. The Portfolio will invest in securities denominated in the currencies of a variety of countries, including emerging market countries. The maximum position size will be 6% in any one company. The maximum position size will be 35% in any one country. The maximum emerging market weight is the MSCI ACWI ex-US Small Cap Index weight plus 15%.
- **Fixed Income Core Index Managers** – Investment is passively managed and is made using commingled funds. As such, the investment guidelines are governed by the fund's prospectus. Permissible investments are Barclays Capital Aggregate Index commingled funds or ETFs.

# El Paso City Employees' Pension Fund (A Component Unit of the City of El Paso, Texas)

## Notes to Financial Statements

August 31, 2018 and 2017

- **Fixed Income Core Plus Managers** – Under current policies, except for U.S. Treasury, its agencies, agency MBS and approved derivative products, the fixed income account shall not contain more than 5% of any issuer. The account will not invest more than 15% in cash and cash equivalents and will not invest in equity securities, with the exception of preferred and convertible preferred securities, in which no more than 10% will be invested. The account may invest up to 15% in illiquid securities. The account may invest up to 35% in non-investment grade bonds; defined as bonds that are rated non-investment grade by two of the three major ratings agencies. The dollar weighted credit quality of the account will generally be AA or less, with a minimum dollar weighted-average quality of BBB-. The effective duration of the account should range between +25%/-40% of the benchmark's duration. The account will not employ leverage.
- **Fixed Income Opportunistic Managers** – Under normal market conditions, the fund may invest up to 50% in bonds that are rated below investment grade (below BBB-/Baa3) by the various credit rating agencies or securities that are not rated. In addition, the fund may leverage its capital. In normal market conditions, the manager may borrow up to 35% of the fund for investment purposes. If the investment manager believes market conditions are unfavorable to participants, the manager may invest up to 100% of the fund in U.S. or non-U.S. currency denominated short-term investments, including cash or cash equivalents.
- **Real Estate Managers** – Real estate investments will be diversified to the extent possible by geographic location and property type. For real estate investment trusts (REITs), managers cannot invest in undeveloped, non-income producing property, cannot invest in funds where leverage is intended to exceed 30% of the fair value of the fund and cannot invest in non-U.S. real estate. For private real estate investments, managers should diversify the portfolio by property type and by various geographic regions of the U.S. Leverage is limited to no more than 30% of the fund. The quarterly standard deviation of returns for REITs and private real estate should be no greater than 150% of their respective benchmark indices.
- **Private Equity Managers** – As private equity fund-of-funds vehicles are commingled, closed-end, finite-life limited liability entities; the investment guidelines will be determined by the fund-of-funds legal documentation. The pooled/fund-of-funds vehicle should not represent more than 20% of the total fair value of the pooled/fund-of-funds. It is also preferred that this holds true for any other investor in the pooled/fund-of-funds. The manager of the fund-of-funds vehicle shall be a bank or a registered advisor under the *Investment Advisors Act of 1940*. If the fund-of-funds provides the option of receiving distributions in cash or securities, the trust will opt to receive cash.

# El Paso City Employees' Pension Fund (A Component Unit of the City of El Paso, Texas)

## Notes to Financial Statements

August 31, 2018 and 2017

- **Master Limited Partnerships** – Investment objective is to achieve long-term growth of capital and out-perform the S&P MLP Index. Management of the portfolio will seek to achieve the investment objective through investments primarily in master limited partnerships (MLPs) and energy-related C-corporations. Security and sector selection, portfolio structure and timing of purchases and sales are delegated to the manager of the portfolio, subject to these guidelines: the portfolio will hold approximately 20 – 30 securities, no single security will exceed the greater of 10% of the portfolio's fair value, or 120%, of the security's weight within the benchmark, cash and cash equivalents will be no more than 10% of the portfolio's assets. Authorized investments include MLPs, securities of energy-related C-corporations and limited liability energy companies that trade on United States stock exchanges, as well as initial public offerings of these investments.
- **Absolute Return** – Investment is made using commingled funds. As such, the investment guidelines are governed by the fund's prospectus. The assets may be invested in common stock, ADRs, global depository receipts (GDRs), preferred stock, ETFs, participation notes, fixed income securities, futures, options, real estate (tradable securities), commodities (tradable securities) and cash and cash equivalents. Currency exposures may be obtained through currency spot, forward and swap contracts.

The following was the Board's adopted asset allocation policy as of August 31, 2018:

Asset Class	Target Allocation
Domestic equity	24%
International equity	16
Fixed income	19
Real estate	10
Absolute return	15
Private equity	10
Master limited partnerships	5
Cash	1
	100%

The preceding target allocation was amended in 2017. This was done to reflect a reduction in the previous allocation to international equity and fixed income and to increase the allocation to absolute return and private equity. The previous target allocation was 20% international equity, 25% fixed income, 23% domestic equity, 10% absolute return, 10% Real estate, 7% private equity and 5% master limited partnerships.



# El Paso City Employees' Pension Fund (A Component Unit of the City of El Paso, Texas)

## Notes to Financial Statements

August 31, 2018 and 2017

### **Deposits**

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Fund's investment policy does not specifically address custodial credit risk for deposits. As of August 31, 2018 and 2017, the Fund holds no deposits.

### **Investments**

Interest rate risk is the risk that the fair value of securities will fall due to changes in market interest rates. The Fund's policy is to minimize interest rate risk by structuring the investment portfolio so that the duration securities are held and the coupon rates of such are appropriately diversified.

As of August 31, 2018 and 2017, the Fund had the following investments subject to interest rate risk:

Investment Type	2018		2017	
	Fair Value	Weighted-Average Maturity (in Years)	Fair Value	Weighted-Average Maturity (in Years)
Cash equivalents (money market funds)	\$ 5,191,686	1.22	\$ 9,853,245	0.15
Government fixed income	32,086,839	23.14	27,104,666	23.03
Corporate bonds and notes	38,110,325	6.83	42,183,835	8.56
Bank collective investment funds	37,121,867	12.97	37,533,947	8.19
Commingled funds	36,020,213	2.63	37,208,259	3.38
<b>Total fair value</b>	<b>\$ 148,530,930</b>		<b>\$ 153,883,952</b>	
Portfolio weighted-average maturity		<u>10.67</u>		<u>9.23</u>

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. Nationally-recognized statistical rating organizations assign ratings to measure credit risk. These rating agencies assess a firm's or government's willingness and ability to repay its debt obligations based on many factors.

The Fund employs one core bond manager that primarily invests in U.S. fixed income and non-U.S. fixed income securities. The Fund also invests in two commingled funds, one passive core fixed income index fund and one opportunistic fixed income fund. The investment management agreement between the Fund and its core bond manager contains specific guidelines that identify permitted fixed income investments.

# El Paso City Employees' Pension Fund (A Component Unit of the City of El Paso, Texas)

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Permitted securities and derivatives for the Fund's opportunistic income fund include fixed and floating-rate debt securities and debt obligations of governments and government-related or corporate issuers worldwide; foreign currencies or securities linked to assets or currencies of any nation; and derivatives on any of the previously mentioned securities. Of the total net assets in the opportunistic fixed income fund, 50% may be invested in bonds that are rated below investment grade (below BBB-) or securities that are not rated.

The Fund's investment policy indicates that the fixed income core plus manager may invest up to 35% of net assets in non-investment grade bonds, at time of purchase. The fixed income core plus portfolio obligations will generally have a dollar weighted average credit quality of generally AA or less, with a minimum dollar weighted average credit quality of BBB-.

The following table identifies the credit quality of the Fund's fixed income strategies based on portfolio holdings as of August 31, 2018 and 2017:

August 31, 2018						
S&P Quality Rating	Total Fair Value	Asset-Backed Securities	Commercial Mortgage-Backed Securities	Collateralized Mortgage Obligations	Corporates (a)	Government & Agency Obligations (b)
U.S. Treasuries	\$ 13,741,938	\$ -	\$ -	\$ -	\$ -	\$ 13,741,938
GNMA Securities	5,776,024	-	-	-	-	5,776,024
AAA	3,635,161	2,445,617	32,758	177,023	198,664	781,100
AA+	37,963,475	239,656	18,799,198	80,875	181,939	18,661,807
AA	4,840,019	338,072	-	-	193,645	4,308,302
AA-	1,268,486	-	-	-	1,144,911	123,575
A+	2,782,046	164,196	-	-	2,385,514	232,336
A	2,456,656	312,756	-	-	2,122,218	21,682
A-	9,706,769	-	-	128,889	2,089,068	7,488,811
BBB+	6,969,156	-	-	99,827	4,616,929	2,252,400
BBB	13,369,639	509,696	-	-	6,729,889	6,130,054
BBB-	9,333,833	1,289,193	-	139,602	7,858,942	46,096
BB+	2,729,453	765,132	-	45,588	1,918,733	-
BB	1,674,110	422,451	-	-	1,251,659	-
BB-	6,911,523	7,961	-	475,392	2,346,819	4,081,352
B+	918,512	457,310	-	35,720	261,005	164,478
B	4,112,213	288,648	-	-	406,014	3,417,551
B-	1,940,790	-	-	-	-	1,940,790
CCC	-	-	-	-	-	-
CCC-	-	-	-	-	-	-
D	-	-	-	-	-	-
NR	14,052,507	2,821,848	489,896	2,919,192	911,461	6,910,110
<b>Totals</b>	<b>\$ 144,182,310</b>	<b>\$ 10,062,536</b>	<b>\$ 19,321,852</b>	<b>\$ 4,102,108</b>	<b>\$ 34,617,410</b>	<b>\$ 76,078,406</b>

**El Paso City Employees' Pension Fund**  
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**August 31, 2018 and 2017**

August 31, 2017						
S&P Quality Rating	Total Fair Value	Asset-Backed Securities	Commercial Mortgage-Backed Securities	Collateralized Mortgage Obligations	Corporates (a)	Government & Agency Obligations (b)
U.S. Treasuries	\$ 23,417,126	\$ -	\$ -	\$ -	\$ -	\$ 23,417,126
GNMA Securities	5,130,296	-	-	-	-	5,130,296
AAA	1,330,538	102,693	33,121	-	404,953	789,771
AA+	24,147,528	124,680	138,150	-	183,959	23,700,739
AA	6,909,096	-	-	-	195,795	6,713,301
AA-	1,422,912	-	-	-	1,297,965	124,947
A+	1,921,021	-	-	-	1,686,105	234,916
A	3,108,535	117,440	-	-	2,969,173	21,922
A-	7,809,807	-	-	-	4,114,679	3,695,128
BBB+	12,171,589	-	103,055	-	11,407,027	661,507
BBB	10,555,594	167,096	-	-	7,835,514	2,552,984
BBB-	17,593,261	-	-	-	12,919,565	4,673,696
BB+	2,107,252	-	82,604	-	2,024,648	-
BB	6,338,555	-	85,021	-	1,053,768	5,199,766
BB-	2,384,544	-	-	-	1,483,069	901,475
B+	1,109,502	-	54,546	-	897,430	157,526
B	265,849	-	86,984	-	178,865	-
B-	4,175,578	-	-	-	-	4,175,578
CCC+	-	-	-	-	-	-
CCC	-	-	-	-	-	-
CCC-	-	-	-	-	-	-
D	-	-	-	-	-	-
NR	12,132,124	269,488	495,334	-	2,178,880	9,188,422
<b>Totals</b>	<b>\$ 144,030,707</b>	<b>\$ 781,397</b>	<b>\$ 1,078,815</b>	<b>\$ -</b>	<b>\$ 50,831,395</b>	<b>\$ 91,339,100</b>

(a) Corporate Bonds include convertible preferred stocks and convertible preferred bonds.

(b) Includes international and municipal holdings.

At August 31, 2018 and 2017, the Fund held various bond instruments in the aggregate fair value of \$144,182,309 and \$144,030,707, respectively. Fixed income core plus portfolios held bond instruments with ratings of BBB or better by Standard & Poor's. Approximately 5% of the portfolio was of non-investment grade bonds as of August 31, 2018.

Concentration of credit risk is the risk of loss attributed to the magnitude of the Fund's investment in a single issuer. The Fund's investment policy does not allow for the investment portfolio to hold more than 10% in any one company. The following table presents the fair value of investments that represents 5% or more of the Fund's net position at August 31, 2018 and 2017.

These investments were in bank collective investment and commingled funds, which consist of diversified portfolios of investments as described above, and none of these investments consist of any one company holding 5% or more of the total investment.

**El Paso City Employees' Pension Fund  
(A Component Unit of the City of El Paso, Texas)**

**Notes to Financial Statements**

**August 31, 2018 and 2017**

	<b>Shares/ Par Value</b>	<b>Fair Value</b>
<b>August 31, 2018</b>		
EB MCM Daily Valued International Specialized Investment Fund		
Mellon Capital Management Corporation	109,322	\$ 50,923,860
EB MCM Daily Valued Stock Index Fund		
Mellon Capital Management Corporation	17,607	66,081,007
EB MCM Daily Valued Dynamic U.S. Equity Fund		
Mellon Capital Management Corporation	170,518	55,781,605
Allianz Structed Alpha 1000 Plus LLC		
Allianz Structed Alpha 1000 Plus LLC	62,930,825	62,930,825
<b>August 31, 2017</b>		
EB MCM Daily Valued International Specialized Investment Fund		
Mellon Capital Management Corporation	135,488	\$ 60,090,017
EB MCM Daily Valued Stock Index Fund		
Mellon Capital Management Corporation	18,955	66,081,007
EB MCM Daily Valued Dynamic U.S. Equity Fund		
Mellon Capital Management Corporation	187,489	50,171,937
Allianz Structed Alpha 1000 Plus LLC		
Allianz Structed Alpha 1000 Plus LLC	57,584,830	57,584,830

**El Paso City Employees' Pension Fund**  
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**Notes to Financial Statements**

**August 31, 2018 and 2017**

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Fund's investment policy allows 13% – 19% of equity securities be invested in foreign markets. The Fund's exposure to foreign currency risk at August 31, 2018 and 2017, was as follows:

Local Currency Name	2018			
	Equity	Fixed Income	Real Estate	Total
Argentine Peso	\$ -	\$ 3,440,996	\$ -	\$ 3,440,996
Australian Dollar	3,442,453	-	-	3,442,453
Brazilian Real	2,483,698	5,053,209	-	7,536,907
British Pound	14,123,543	-	-	14,123,543
Canadian Dollar	4,515,348	-	-	4,515,348
Columbian Peso	-	2,223,051	-	2,223,051
Danish Krone	1,557,382	-	-	1,557,382
Euro Currency Unit	28,580,082	-	-	28,580,082
Ghanaian Cedi	-	2,068,289	-	2,068,289
Hong Kong Dollar	11,846,429	-	-	11,846,429
Indian Rupee	1,982,640	4,432,964	-	6,415,604
Indonesian Rupiah	837,702	4,288,666	-	5,126,368
Japanese Yen	21,898,284	-	-	21,898,284
Mexican Peso	1,131,719	9,431,970	-	10,563,689
Philippine Peso	483,634	727,735	-	1,211,369
Singapore Dollar	1,042,046	-	-	1,042,046
South African Rand	2,511,773	1,446	-	2,513,219
South Korean Won	4,579,467	47,934	-	4,627,401
Swedish Krona	3,215,005	-	-	3,215,005
Swiss Franc	5,923,188	1,256	-	5,924,444
Taiwanese Dollar	4,367,203	-	-	4,367,203
Thai Baht	928,290	2,293,860	-	3,222,150
Other	3,745,666	991,913	-	4,737,579
<b>Total</b>	<b>\$ 119,195,552</b>	<b>\$ 35,003,289</b>	<b>\$ -</b>	<b>\$ 154,198,841</b>

**El Paso City Employees' Pension Fund**  
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**Notes to Financial Statements**

**August 31, 2018 and 2017**

<u>Local Currency Name</u>	<u>2017</u>			
	<u>Equity</u>	<u>Fixed Income</u>	<u>Real Estate</u>	<u>Total</u>
Argentine Peso	\$ -	\$ 1,935,706	\$ -	\$ 1,935,706
Australian Dollar	4,266,391	-	-	4,266,391
Brazilian Real	1,554,956	5,199,766	-	6,754,722
British Pound	12,711,136	-	-	12,711,136
Canadian Dollar	2,137,561	-	-	2,137,561
Columbian Peso	-	1,730,797	-	1,730,797
Danish Krone	1,216,206	-	-	1,216,206
Euro Currency Unit	26,641,151	-	-	26,641,151
Ghanaian Cedi	-	2,097,208	-	2,097,208
Hong Kong Dollar	10,784,815	-	-	10,784,815
Indian Rupee	2,688,428	3,587,919	-	6,276,347
Indonesian Rupiah	24,192,027	3,821,392	-	28,013,419
Japanese Yen	26,157,746	-	-	26,157,746
Mexican Peso	1,035,441	8,015,799	-	9,051,240
Philippine Peso	478,253	628,442	-	1,106,695
South African Rand	1,797,254	806,855	-	2,604,109
South Korean Won	5,112,748	-	-	5,112,748
Swedish Krona	2,864,427	-	-	2,864,427
Swiss Franc	5,800,267	-	-	5,800,267
Taiwanese Dollar	4,181,711	-	-	4,181,711
Thai Baht	883,652	1,752,770	-	2,636,422
Other	4,120,609	636,745	-	4,757,354
<b>Total</b>	<b>\$ 138,624,779</b>	<b>\$ 30,213,399</b>	<b>\$ -</b>	<b>\$ 168,838,178</b>

**Security Lending Transactions**

State statutes and board of trustees' policies permit the Fund to lend its securities to broker/dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The Fund currently participates in a security lending short duration lending pool. All securities loans can be terminated on demand by either the Fund or the borrower, although the average term of the loans is one week. The relationship between the maturities of the investment pool and the system's loans is affected by the maturities of the securities loans made by other entities that can use the agent's pool, which the Fund cannot determine.

**El Paso City Employees' Pension Fund  
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**Notes to Financial Statements**

**August 31, 2018 and 2017**

Custodial credit risk for securities lending transactions is the risk that, in the event of the failure of the counterparty, the system will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. For the years ended August 31, 2018 and 2017, the Fund had no credit risk exposure to borrowers because the amounts the Fund owes the borrowers exceed the amounts the borrowers owe the Fund. Fair value of securities loaned by type of investment at August 31, was as follows:

	<b>2018</b>	<b>2017</b>
Corporate stocks	<b>\$ 27,090,494</b>	<b>\$ 18,206,098</b>

**Rate of Return**

For the years ended August 31, 2018 and 2017, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 8.74% and 10.29%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**Note 5: Disclosures About Fair Value of Assets**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

**El Paso City Employees' Pension Fund**  
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**Notes to Financial Statements**

**August 31, 2018 and 2017**

**Recurring Measurements**

The following table presents the fair value measurements of assets recognized in the accompanying statements of fiduciary net position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at August 31, 2018 and 2017:

	8/31/2018	2018 Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investments by Fair Value Level</b>				
Debt securities				
U.S. government securities	\$ 32,086,839	\$ -	\$ 32,086,839	\$ -
Corporate bonds and notes	38,991,174	-	38,991,174	-
Total debt securities	71,078,013	-	71,078,013	-
Corporate stocks				
All cap equity	33,488,943	33,488,943	-	-
Small/Mid cap equity	67,970,700	67,970,700	-	-
Total corporate stocks	101,459,643	101,459,643	-	-
Master limited partnerships	39,817,825	39,817,825	-	-
Total investments by fair value level	212,355,481	\$ 141,277,468	\$ 71,078,013	\$ -
<b>Investments Measured at the Net Asset Value (NAV) (a)</b>				
Absolute return investments	126,830,615			
Bank collective investment funds				
Large cap index	73,313,733			
Large cap dynamic	55,781,605			
International equity developed	50,923,860			
Total bank collective investment funds	180,019,198			
Commingled funds – fixed income				
Fixed income opportunistic	36,020,213			
Fixed Income core index	37,121,867			
Total commingled funds - fixed income	73,142,080			
Commingled funds – corporate stocks				
International equity – all country	27,220,866			
International equity – all country small cap	25,932,157			
International equity – emerging markets	28,476,081			
Total commingled funds – corporate stocks	81,629,104			
Real estate				
Private real estate	72,817,424			
Total real estate	72,817,424			
Private equity investments	62,394,830			
Total investments measured at the NAV	596,833,251			
Total investments measured at fair value	\$ 809,188,732			



**El Paso City Employees' Pension Fund**  
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**Notes to Financial Statements**

**August 31, 2018 and 2017**

	2017			
	Fair Value Measurements Using			
	8/31/2017	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investments by Fair Value Level</b>				
U.S. government securities	\$ 27,104,666	\$ -	\$ 27,104,666	\$ -
Corporate bonds and notes	42,183,835	-	42,183,835	-
Total debt securities	<u>69,288,501</u>	<u>-</u>	<u>69,288,501</u>	<u>-</u>
Corporate stocks				
All cap equity	28,678,712	28,678,712	-	-
Small/Mid cap equity	55,204,592	55,204,592	-	-
Total corporate stocks	<u>83,883,304</u>	<u>83,883,304</u>	<u>-</u>	<u>-</u>
Master limited partnerships	37,030,451	37,030,451	-	-
Total investments by fair value level	<u>190,202,256</u>	<u>\$ 120,913,755</u>	<u>\$ 69,288,501</u>	<u>\$ -</u>
<b>Investments Measured at the Net Asset Value (NAV) (a)</b>				
Absolute return investments	109,573,856			
Bank collective investment funds				
Large cap index	66,081,007			
Large cap dynamic	50,171,964			
International equity developed	60,090,017			
Total bank collective investment funds	<u>176,342,988</u>			
Commingled funds – fixed income				
Fixed income opportunistic	37,208,259			
Fixed Income core index	37,533,947			
Total commingled funds - fixed income	<u>74,742,206</u>			
Commingled funds – corporate stocks				
International equity – all country	31,683,453			
International equity – all country small cap	28,027,381			
International equity – emerging markets	29,558,272			
Total commingled funds – corporate stocks	<u>89,269,106</u>			
Real estate				
Private real estate	67,975,022			
Total real estate	<u>67,975,022</u>			
Private equity investments	57,103,830			
Total investments measured at the NAV	<u>575,007,008</u>			
Total investments measured at fair value	<u>\$ 765,209,264</u>			

(a) Certain investments that are measured using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of fiduciary net position.

# El Paso City Employees' Pension Fund (A Component Unit of the City of El Paso, Texas)

## Notes to Financial Statements

August 31, 2018 and 2017

The following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying statements of fiduciary net position, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended August 31, 2018.

### *Investments*

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy.

The valuation method for investments measured at the net asset value (NAV) per share (or its equivalent) is presented on the following table:

#### Investments Measured at the NAV

	Fair Value at 8/31/2018	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Absolute return investments	\$ 126,830,615		Daily	Daily to 30 days
Large cap index	73,313,733		Daily	1 day
Large cap dynamic	55,781,605		Daily	Daily
International equity – developed	50,923,860		Daily	2 days
Fixed income opportunistic	36,020,213		Daily	Daily
Fixed Income core index	37,121,867		Daily	2 days
International equity – all country	27,220,866		Daily	3 days
International equity – all country small cap	25,932,157		Daily	Daily
International equity – emerging markets (commingled)	28,476,081		Daily	30 days
Private real estate	72,817,424		Daily	90 days
Private equity investments	<u>62,394,830</u>	\$ 64,600,000	Daily	5 days
Total investments measured at the NAV	<u>\$ 596,833,251</u>			

**El Paso City Employees' Pension Fund  
(A Component Unit of the City of El Paso, Texas)**

**Notes to Financial Statements**

**August 31, 2018 and 2017**

	Fair Value at 8/31/2017	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Large cap index	66,081,007		Daily	1 day
Large cap dynamic	50,171,964		Daily	Daily
International equity – developed	60,090,017		Daily	2 days
Fixed income opportunistic	37,208,259		Daily	Daily
Fixed Income core index	37,533,947		Daily	2 days
International equity – all country	31,683,453		Daily	3 days
International equity – all country small cap	28,027,381		Daily	Daily
International equity – emerging markets (commingled)	29,558,272		Daily	30 days
Private real estate	67,975,022		Daily	90 days
Real estate investment trust	-		Daily	Daily
Private equity investments	57,103,830	\$ 57,563,923	Daily	5 days
Total investments measured at the NAV	<u>\$ 575,007,008</u>			

See *Footnote 4* for descriptions of investments measured at the NAV

**Note 6: Fund Termination**

Although not anticipated, should the Fund terminate at some future time, its net position generally will not be available on a pro rata basis to provide participants' benefits. Whether a particular participant's accumulated benefits will be paid depends on the priority of those benefits. Benefits under the Fund are not guaranteed by the Pension Benefit Guaranty Corporation.

**Note 7: Plan Tax Status and ERISA**

The Fund is a PERS and is exempt from federal income taxes and the provisions of the *Employee Retirement Income Security Act of 1974* (ERISA). Additionally, the Plan obtained its latest determination letter on May 29, 2013, in which the Internal Revenue Service stated that the Plan and related trust, as then designed, were in compliance with the applicable requirements of the *Internal Revenue Code* (IRC) and therefore not subject to tax. The Plan has been amended since receiving the determination letter. However, the plan administrator believes that the Plan and related trust are currently designed and being operated in compliance with the applicable requirements of the IRC.

**El Paso City Employees' Pension Fund  
(A Component Unit of the City of El Paso, Texas)**

**Notes to Financial Statements**

**August 31, 2018 and 2017**

**Note 8: Related Party Transactions**

An affiliate of the Fund's custodian is an investment manager for the Fund, which managed \$217,141,065 and \$213,876,935 of the Fund's investments at August 31, 2018 and 2017, respectively. As of August 31, 2018 and 2017, the Fund accrued investment management fees of \$39,000 and \$38,000, respectively, for the services of that investment manager. For the years ended August 31, 2018 and 2017, the Fund incurred \$236,121 and \$225,738, respectively, in management fees with this investment manager.

## **Required Supplementary Information**

**El Paso City Employees' Pension Fund**  
**(A Component Unit of the City of El Paso, Texas)**  
**Schedule of Changes in Net Pension Liability and Related Ratios**

	2018	2017	2016	2015	2014
<b>Total Pension Liability</b>					
Service cost	\$ 20,418,111	\$ 20,418,111	\$ 23,021,764	\$ 22,243,250	\$ 20,691,396
Interest	72,439,238	70,199,486	66,845,529	64,244,529	61,812,817
Differences between expected and actual experience	16,640,620	-	(22,728,241)	115,295	4,691,256
Changes in assumptions	-	-	37,572,898	-	-
Benefit payments, including refunds of plan member contributions	(61,114,382)	(60,394,115)	(54,383,629)	(50,788,937)	(52,592,834)
<b>Net Change in Total Pension Liability</b>	<b>48,383,587</b>	<b>30,223,482</b>	<b>50,328,321</b>	<b>35,814,137</b>	<b>34,602,635</b>
<b>Total Pension Liability, Beginning of Year</b>	<b>975,995,580</b>	<b>945,772,098</b>	<b>895,443,777</b>	<b>859,629,640</b>	<b>825,027,005</b>
<b>Total Pension Liability, End of Year</b>	<b>\$ 1,024,379,167</b>	<b>\$ 975,995,580</b>	<b>\$ 945,772,098</b>	<b>\$ 895,443,777</b>	<b>\$ 859,629,640</b>
<b>Plan Fiduciary Net Position</b>					
Employer contributions	\$ 25,651,488	\$ 25,327,071	\$ 23,370,111	\$ 22,916,913	\$ 21,830,044
Plan member contributions	15,540,713	15,154,341	14,886,249	14,595,935	14,039,600
Net investment income	65,372,489	75,370,973	40,260,073	(17,872,916)	107,723,189
Benefit payments, including refunds of plan member contributions	(61,114,382)	(61,077,565)	(54,383,629)	(50,788,937)	(52,592,834)
Administrative expense	(2,036,643)	(1,325,640)	(1,417,530)	(1,355,351)	(1,143,272)
<b>Net Change in Plan Fiduciary Net Position</b>	<b>43,413,665</b>	<b>53,449,180</b>	<b>22,715,274</b>	<b>(32,504,356)</b>	<b>89,856,727</b>
<b>Plan Fiduciary Net Position, Beginning of Year</b>	<b>776,552,623</b>	<b>723,103,443</b>	<b>700,388,169</b>	<b>732,892,525</b>	<b>643,035,798</b>
<b>Plan Fiduciary Net Position, End of Year</b>	<b>\$ 819,966,288</b>	<b>\$ 776,552,623</b>	<b>\$ 723,103,443</b>	<b>\$ 700,388,169</b>	<b>\$ 732,892,525</b>
<b>City's Net Pension Liability, End of Year</b>	<b>\$ 204,412,879</b>	<b>\$ 199,442,957</b>	<b>\$ 222,668,655</b>	<b>\$ 195,055,608</b>	<b>\$ 126,737,115</b>
<b>Plan's Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	<b>80.05%</b>	<b>79.57%</b>	<b>76.46%</b>	<b>78.22%</b>	<b>85.26%</b>
<b>Covered – Employee Payroll</b>	<b>\$ 161,026,109</b>	<b>\$ 161,026,109</b>	<b>\$ 156,336,028</b>	<b>\$ 158,990,084</b>	<b>\$ 153,613,308</b>
<b>Plan's Net Pension Liability as a Percentage of Covered – Employee Payroll</b>	<b>126.94%</b>	<b>123.86%</b>	<b>142.43%</b>	<b>122.68%</b>	<b>82.50%</b>

**Note:** This schedule is presented to illustrate the requirement to show 10 years of information. However, until a full 10-year trend is compiled, years for which the information is available will be presented.

**El Paso City Employees' Pension Fund**  
**(A Component Unit of the City of El Paso, Texas)**  
**Schedule of Investment Returns**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return, net of investment expense	8.74%	10.29%	6.36%	-2.86%	17.22%

**Note:** This schedule is presented to illustrate the requirement to show 10 years of information. However, until a full 10-year trend is compiled, years for which the information is available will be presented.

## **Other Supplementary Information**



**El Paso City Employees' Pension Fund**  
**(A Component Unit of the City of El Paso, Texas)**  
**Comparative Summary of Revenue by Source and Expenses by Type**

**Revenue by Source\***

Years Ended August 31,	Interest, Dividends and Net Securities Lending Income	Employer Contributions (a)	Plan Member Contributions (a)	Net Appreciation (Depreciation) In Fair Value of Investments	Total	Employer Contributions As a Percentage of Covered Payroll
2018	\$ 7,108,787	\$ 25,651,488	\$ 15,540,713	\$ 64,832,061	\$ 113,133,049	14.05%
2017	6,459,227	25,327,071	15,154,341	74,716,005	121,656,644	14.05%
2016	7,563,107	23,370,111	14,886,249	37,856,062	83,675,529	14.05%
2015	7,433,579	22,916,913	14,595,935	(21,734,515)	23,211,912	14.05%
2014	8,039,815	21,830,044	14,039,600	103,082,579	146,992,038	13.45%
2013	9,096,062	20,499,707	13,328,629	63,890,162	106,814,560	12.85%
2012	5,161,832	19,181,091	12,607,172	43,642,344	80,592,439	12.25%

\*Excludes increase (decrease) in commission credits receivable.

**Expenses by Type**

Years Ended August 31,	Benefits	Refunds	Investment Fees (b)	Administrative Expenses	Total
2018	\$ 58,094,939	\$ 2,889,443	\$ 6,578,777	\$ 2,036,643 (c)	\$ 69,599,802
2017	57,972,792	3,104,773	5,783,774	1,325,640 (c)	68,186,979
2016	51,554,209	2,829,420	5,104,720	1,417,530	60,905,879
2015	48,419,841	2,369,096	3,510,570	1,355,351	55,654,858
2014	49,375,280	3,217,554	3,336,994	1,143,272	57,073,100
2013	43,021,060	2,159,129	2,932,444	1,176,347	49,288,980

(a) Employee and employer contribution rates are based upon local statutes; contribution rates are not actuarially determined.

(b) Investment fees are made up entirely of investment manager fees.

(c) Detail listed on Comparative Summary of Administrative Expenses.

**El Paso City Employees' Pension Fund**  
**(A Component Unit of the City of El Paso, Texas)**  
**Comparative Summary of Administrative Expenses**  
**Years Ended August 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
Custodial fees	\$ 189,890	\$ 103,531
Consulting fees	288,158	279,135
Legal	151,251	28,956
Travel/education – trustee per diem (1)	-	2,206
Travel/education – employee	2,080	6,708
Audit/accounting	81,250	40,000
Actuary	24,352	64,403
Wages and benefits	693,830	647,099
Other operating expenses	201,397	82,684
Miscellaneous	324,810	-
Land expense	405	-
Liability insurance	<u>79,220</u>	<u>70,918</u>
 Total administrative expenses	 <u>\$ 2,036,643</u>	 <u>\$ 1,325,640</u>

- (1) Other trustee travel expense in the amount of \$2,206 for the year ended August 31, 2017, were paid from directed brokerage commission credits and are noted with the increase in commission credits receivable in the statements of changes in fiduciary net position.

**El Paso City Employees' Pension Fund**  
**(A Component Unit of the City of El Paso, Texas)**  
**Schedule of Investment Manager Expenses**  
**For the Years Ended August 31, 2018 and 2017**

	<u>2018</u>		<u>2017</u>	
	<u>Fair Value of Assets Under Management</u>	<u>Total Fees</u>	<u>Fair Value of Assets Under Management</u>	<u>Total Fees</u>
Fixed Income Managers	\$ 71,078,013	\$ 176,067	\$ 69,288,500	\$ 185,338
Equity Managers	101,459,644	826,625	83,883,305	736,229
Bank Collective Investment Funds Managers	180,019,198	236,122	176,342,988	225,738
Commingled Fixed Income Funds Managers	81,629,104	527,697	89,269,106	373,145
Commingled Equity Funds Managers	73,142,079	465,638	74,742,206	437,549
Real Estate Investment Trust Managers	-	-	-	24,149
Private Real Estate Managers	72,817,424	668,778	67,975,022	649,344
Private Equity Managers	62,394,830	1,145,419	57,103,830	813,585
Absolute Value Managers	126,830,615	2,260,235	109,573,856	2,049,790
Master Limited Partnership Managers	39,817,825	272,196	37,030,451	288,907
<b>Total</b>	<u>\$ 809,188,732</u>	<u>\$ 6,578,777</u>	<u>\$ 765,209,264</u>	<u>\$ 5,783,774</u>

## INVESTMENT SECTION



February 28, 2019

Board of Trustees  
City of El Paso Employees Retirement Trust  
1039 Chelsea  
El Paso, TX 79903

**RE: Report on 2018 Investment Activities**

Dear Board Members:

The El Paso City Council created a City Employees' Pension Board of Trustees that makes investments for the sole interest of the participants and beneficiaries of the Fund. The primary purpose of the investments is to generate rates of return at a reasonable and controlled level of risk that enable the Fund to pay all pension benefit obligations when due. Thus, the assets of the Fund are invested in accordance with these investment objectives: (1) contain total plan costs to the lowest reasonable level; (2) provide the greatest flexibility in funding retirement benefits for participants; (3) keep assets above 100% of accrued vested liabilities; (4) grow total plan assets over time on a real dollar basis at a compound rate of increase which, combined with contributions, will provide for the payment of current and future benefits.

The Fund maintains a policy of broad diversification with the long-term objective of achieving a consistent, positive return on Fund assets. Although speculation is avoided, the Board understands that an above-average return is associated with a certain degree of risk. Risk, to be assumed, must be considered appropriate for the return anticipated and consistent with the total diversification of Fund assets.

Fund assets are to be invested with the care, skill, and diligence that a prudent person acting in a like capacity would undertake. The Board acknowledges that, in the process, they have the objective of controlling the costs involved with administering and managing the investments of the Fund.

In establishing its risk tolerance, the Board considered its ability to withstand short and intermediate-term volatility in market conditions. The Board also reviewed the long-term characteristics of various asset classes, focusing on balancing risk with expected return. Accordingly, the Board selected these seven asset classes for investments: domestic equity; international equity; fixed income; private equity; real estate; MLPs and absolute return. As of August 31, 2018, the Fund exhibited the following allocations to the aforementioned asset classes.

Asset Class	Fair Value \$(000)	Allocation (%)
Domestic Equity	232,807	29%
International Equity	132,554	16%
Fixed Income	144,220	18%
Private Equity	57,481	7%
Real Estate	73,095	9%
MLP	40,423	5%
Absolute Return	128,528	16%
Cash	2,672	0%
<b>Total Fund</b>	<b>811,779</b>	<b>100%</b>

The Board, with information provided by their financial consultant, closely monitors the Fund's asset mix to assure compliance with the adopted Investment Policy Statement and appropriate city ordinances that regulate the investment process.

On an ongoing basis, the Board implements a performance measurement and evaluation process that examines rates of return for the Fund in total, the seven major asset classes, and individual managers. The Board compares returns to broad market indices and relevant "peer groups" of investment managers with similar investment styles. Investment measurements and comparisons have been made using standard performance evaluation methods and results are presented in a manner consistent with the investment industry. All returns are time-weighted rates of return calculated by the Fund's financial consultant on the basis of fair value and cash flow data provided by the Fund's bank custodian.

The Fund's total return and target benchmark return for the fiscal year, the last three years, and the last five years ended August 31, 2018 are provided in the table below. For the fiscal year, all asset classes, with the exception of fixed income, provided positive returns on an absolute basis.

	Annualized Returns		
	1 Year	3 Year	5 Year
<b>Total Fund</b>	<b>7.75%</b>	<b>8.06%</b>	<b>7.56%</b>
Strategic Blended Index	9.32%	9.00%	8.08%

Yours truly,



Alex Browning  
Senior Vice President

## **Investment Managers**

### **Domestic Equity**

- Mellon Equity Index
- Mellon Dynamic US Equity
- Vulcan All Cap
- Wedge
- Riverbridge

### **International Equity**

- Mellon International Stock Index
- Franklin Templeton Int'l Equity
- Lazard International Equity
- AQR Emerging Markets

### **Private Equity**

- PAPEF VII
- PASF II
- PAPEF VIII
- PASF III
- PAPEF IX

### **Domestic Fixed Income**

- Mellon Aggregate Index
- Janus Core Plus
- Franklin Templeton Global Plus

### **Real Estate**

- USB Trumbull Fund
- Heitman

### **MLP**

- Salient Advisors

### **Absolute Return**

- Allianz
- AQR Style Premia
- Invesco

## **Investment Guidelines**

### **General**

The Board is responsible for the investment of all assets and for establishing policies and practices. All investments shall be made for the purposes of providing benefits to participants and their beneficiaries and defraying the expenses related to administering the Fund as determined by the Board.

The Board may, at its discretion, retain investment advisors to manage all or a portion of the Fund assets. These advisors shall be selected from established and financially sound organizations which have a proven and demonstrable record in managing funds with characteristics appropriate for the risk/return profile of the Fund assets. The selection process will involve a disciplined approach that will be fully documented for the Board's records.

All assets should be properly diversified to reduce the potential of a single security or single sector of securities having a disproportionate impact on the portfolio.

Given the expense, difficulty of obtaining adequate diversification, related custody costs and ultimate size of the Fund's commitments to various asset classes, commingled funds may be used as the vehicle for the investment in such asset classes. In such cases, the investment guidelines will be governed by the fund's prospectus.

The following guidelines would apply to investment mandates utilized by the Fund:



## **Large Cap Index Equity**

### **Investment Guidelines**

This investment will be passively managed. Permissible investments are S&P 500 Index commingled funds or Exchange Traded Funds (ETFs).

In order to ensure adequate diversification and prudently manage the costs associated with the custody of opportunistic fixed income investments, this investment will be made using a commingled fund.

As such, the investment guidelines will be governed by the fund's prospectus.

## **Large Cap Dynamic**

### **Investment Guidelines**

In order to ensure adequate diversification and prudently manage the costs associated with the custody of international investments, this investment will be made using a commingled fund.

As such, the investment guidelines will be governed by the fund's prospectus.

### **Investment Objective**

The investment objective is to achieve long-term capital appreciation and outperform the S&P 500 Index.

### **Investment Strategy**

The Portfolio will actively allocate assets across the equity, fixed income, and cash markets of the United States. The volatility of the portfolio should be similar or less than the S&P 500 Index. The assets of the Portfolio may be invested in securities, derivatives, and a combination of other collective funds.

### **Portfolio Restrictions**

Long and short positions in financial futures, options on financial futures, index options, exchange-traded options, and over-the-counter options, may be used.

Cash investments or assets used as collateral underlying the derivatives positions may be comprised of other collective funds and short to medium-term debt of investment grade that may include, without limitation, Treasury bills and notes, corporate obligations, commercial paper, repurchase agreements, and obligations of government sponsored enterprises.

## **Small/Mid Cap Equity**

### **Investment Guidelines**

#### **Investment Objective**

The investment objective is to achieve long-term capital appreciation and outperform the Russell 2500 Index.

#### **Investment Strategy**

The Portfolio will invest primarily in equity and equity-related securities of issuers that are located in the United States with market capitalizations greater than \$500 million and under \$15 billion; the market capitalization of certain securities may be less than or greater than this range at times. The portfolio may invest in publicly traded stocks of U.S. corporations, American Depository Receipts (ADRs), publicly traded stocks of foreign corporations listed on U.S. stock exchanges, Exchange Traded Funds (ETFs), and short-term investments, money market instruments or equivalent.

#### **Portfolio Restrictions**

**Company Weightings** – The maximum position size in any one company will be 5% of the portfolio value at the time of purchase and shall not exceed a maximum appreciated position size of 8% of the portfolio value.

Leverage, short sales, and buying and selling on margin are not permitted.

**Cash** – Under normal circumstances, the Portfolio may invest up to 5% of its assets in cash and cash equivalents (exclusive of cash necessary for the settlement of transactions).

## **All Cap Equity**

### **Investment Guidelines**

#### **Investment Objective**

The investment objective is to achieve long-term capital appreciation and outperform the Russell 3000 Index. In addition, the goal is to achieve a meaningful return above inflation over a 5-year period.

#### **Investment Strategy**

The Portfolio will invest primarily in equity and equity-related securities of issuers that are located in the United States with market capitalizations that span the broad equity market in a concentrated manner, generally with 20-80 holdings. The portfolio may invest in publicly traded stocks of U.S. corporations, American Depository Receipts (ADRs), publicly traded stocks of foreign corporations, Exchange Traded Funds (ETFs), and short-term investments, money market instruments or equivalent.

#### **Portfolio Restrictions**

Leverage, short sales, and buying and selling on margin are not permitted.

Cash – The Portfolio may hold cash if securities meeting the manager's criteria are not available.

## **International Equity-Developed Index**

### **Investment Guidelines**

This investment will be passively managed. Permissible investments are MSCI EAFE Index commingled funds or Exchange Traded Funds (ETFs).

In order to ensure adequate diversification and prudently manage the costs associated with the custody of opportunistic fixed income investments, this investment will be made using a commingled fund.

As such, the investment guidelines will be governed by the fund's prospectus.

## **International Equity-All Country**

### **Investment Guidelines**

In order to ensure adequate diversification and prudently manage the costs associated with the custody of international investments, this investment will be made using a commingled fund.

As such, the investment guidelines will be governed by the fund's prospectus.

### **Investment Objective**

The investment objective is to achieve long-term capital appreciation and outperform the MSCI ACWI ex-US IMI Index.

### **Investment Strategy**

The Portfolio will invest primarily in equity and equity-related securities of issuers that are located in, or that do significant business in, countries other than the United States, including emerging market countries. The Portfolio will invest in securities denominated in the currencies of a variety of countries, including emerging market countries.

### **Portfolio Restrictions**

**Company Weightings** – The maximum position size will be 6% in any one company.

**Country Weightings** – The maximum position size will be 35% in any one country. The maximum emerging markets weight is the Index weight plus 15%.

**Cash** – Under normal circumstances, the Portfolio may invest up to 5% of its assets in cash and cash equivalents (exclusive of cash necessary for the settlement of transactions).

## **International Equity-Emerging Markets**

### **Investment Guidelines**

In order to ensure adequate diversification and prudently manage the costs associated with the custody of international investments, this investment will be made using a commingled fund.

As such, the investment guidelines will be governed by the fund's prospectus.

### **Investment Objective**

The investment objective is to achieve long-term capital appreciation and outperform the MSCI Emerging Markets Index.

### **Investment Strategy**

The Portfolio will invest primarily in equity and equity-related securities of at least 80% of its assets in issuers that are located in, or that do significant business in emerging market countries. The Portfolio will invest in securities denominated in the currencies of a variety of countries, including emerging market countries.

### **Portfolio Restrictions**

**Company Weightings** – The maximum position size will be 6% in any one company.

**Country Weightings** – The maximum position size will be 20% in any one country.

**Cash** – Under normal circumstances, the Portfolio may invest up to 5% of its assets in cash and cash equivalents (exclusive of cash necessary for the settlement of transactions).

## **International Equity-All Country Small Cap**

### **Investment Guidelines**

In order to ensure adequate diversification and prudently manage the costs associated with the custody of international investments, this investment will be made using a commingled fund.

As such, the investment guidelines will be governed by the fund's prospectus.

### **Investment Objective**

The investment objective is to achieve long-term capital appreciation and outperform the MSCI ACWI ex-US Small Cap Index.

### **Investment Strategy**

The Portfolio will invest primarily in equity and equity-related securities of issuers that are located in, or that do significant business in, countries other than the United States, including emerging market countries. The Portfolio will invest in securities denominated in the currencies of a variety of countries, including emerging market countries.

### **Portfolio Restrictions**

**Company Weightings** – The maximum position size will be 6% in any one company.

**Country Weightings** – The maximum position size will be 35% in any one country. The maximum emerging markets weight is the Index weight plus 15%.

**Cash** – Under normal circumstances, the Portfolio may invest up to 5% of its assets in cash and cash equivalents (exclusive of cash necessary for the settlement of transactions).



## **Fixed Income Core Index**

### **Investment Guidelines**

This investment will be passively managed. Permissible investments are Barclays Capital Aggregate Index commingled funds or Exchange Traded Funds (ETFs).

In order to ensure adequate diversification and prudently manage the costs associated with the custody of opportunistic fixed income investments, this investment will be made using a commingled fund.

As such, the investment guidelines will be governed by the fund's prospectus.

## **Fixed Income Core Plus**

### **Investment Guidelines**

#### **Investment Objective:**

- Provide a total return that exceeds that of the Benchmark Portfolio with a commensurate amount of risk (risk as defined by standard deviation).

#### **A. Main Objective**

The main objective for the management of the account is to outperform the benchmark, the Barclays U.S. Aggregate Bond Index, in a risk adjusted manner. The strategy is designed for long term investors who primarily seek total return.

#### **B. Investment Universe and Limitations**

##### **1. Allowable Investments**

- a. Corporate bonds and notes
- b. Government securities, including agencies
- c. Certificate of deposit
- d. Discount notes
- e. Repurchase agreements
- f. Bank Loans
- g. Asset backed and mortgage backed securities
- h. Depository receipts
- i. Real estate investment trusts (debt only)
- j. Publicly traded limited partnerships (debt only)
- k. Preferred and convertible preferred.
- l. 144A securities

##### **2. General Restrictions**

- a. The effective duration of the account will generally be +25%/-40% of the benchmark index, under normal circumstances.
- b. The account will generally not invest more than 15% of its net assets in cash and cash equivalents.
- c. The maximum issuer position size will be limited to 5% of net assets at the time of purchase, excluding those issued by the U.S. Government, its agencies, agency MBS, and approved derivative products.
- d. The account will not invest in equity securities, with the exception of preferred and convertible preferred securities, in which no more than 10% will be invested.

- e. The account may invest up to 15% of net assets at time of purchase, in illiquid securities. 144A securities deemed liquid by the Portfolio Manager or Head Fixed Income Trader will not be considered in the illiquid concentration.
- f. The account may invest up to 35% in non-investment grade bonds, at time of purchase. Non-investment grade bonds are defined as bonds that are rated non-investment grade by two of the three major ratings agencies (BB+ or lower by Standard & Poor's Rating Service and Fitch, Inc., or Ba1 or lower by Moody's Investors Service, Inc.).
- g. The dollar weighted average credit quality of the account will generally be AA or less, with a minimum dollar weighted average credit quality of BBB-.
- h. For split rated securities, the following methodology will be used:
  - i. If the security is rated by all three rating agencies (S&P, Moody's, and Fitch), the middle rating will apply.
  - ii. If the security is rated by all three rating agencies with two or more ratings the same, the majority rating will apply.
  - iii. If the security is rated by only two rating agencies the lowest rating will apply.

### **3. Foreign Securities**

- a. The account may invest in U.S. dollar denominated securities issued by non-U.S. domiciled issuers and/or entities, although it intends to primarily invest in securities issued by U.S. domiciled issuers and/or entities.

### **4. Derivatives**

- a. The account may invest in over the counter (OTC) and exchange traded futures, options, swaps (including index credit default swaps) and structured products. (Agreements will need to be put in place with counterparties prior to trading in these types of instruments.)
- b. The use of interest rate derivatives is acceptable to manage overall duration of the portfolio.
- c. The client will be notified prior to investing in any other type of derivative not referenced above.

**5. Short Selling**

- a. The account may sell securities short, including futures, swaps, structured products and call options.

**6. Miscellaneous**

- a. The account is to be managed in USD.
- b. The account will not employ leverage.
- c. Investment types not explicitly allowed in these guidelines may still be used by the manager if deemed to be appropriate. Client permission will be sought if the investment type is intended to be a primary strategy, defined as greater than 5% of net assets of the account.

## **Fixed Income Opportunistic**

### **Investment Guidelines**

In order to ensure adequate diversification and prudently manage the costs associated with the custody of opportunistic fixed income investments, this investment will be made using a commingled fund.

As such, the investment guidelines will be governed by the fund's prospectus.

### **Purpose and Investment Policies**

The fund's principal investment objective is to maximize, consistent with prudent investment management, total investment return consisting of a combination of interest income, capital appreciation, and currency gains. The fund will employ a long-term fundamental, research-driven approach and will focus on identifying potential sources of high total return worldwide.

Under normal market conditions, the fund's primary investments will include fixed- and floating-rate debt securities and debt obligations of governments, and government-related or corporate issuers worldwide; foreign currencies or securities linked to assets or currencies of any nation; and derivatives on any of the previously mentioned securities. As part of the strategy, the fund may have short exposures. Under normal market conditions, the Fund may invest up to 50% of total net assets in bonds that are rated below investment grade (below BBB-/Baa3) by the various credit rating agencies, or securities that are not rated.

### **Eligible Securities**

The fund may invest (but is not required or limited to investing) in the following instruments:

- U.S. Treasury securities
- Government/sovereign bonds
- Government-related bonds
- Supranational bonds
- Inflation-linked government bonds
- Mortgages, including mortgage-backed securities (MBS), asset-backed securities (ABS) and commercial-backed securities (CMBS)
- Corporate bonds, including investment grade and high-yield bonds
- Municipal bonds
- Convertible bonds and convertible preferred stock

- Emerging market debt securities
- Bank loans
- Private placement debt securities, including 144A securities
- Collateralized debt obligations and collateralized loan obligations
- Money market instruments, cash and cash equivalents
- Exchange traded funds/notes, mutual funds, and other open-end investment structures

### **Derivative Exposure**

In addition to the securities listed above, derivatives (including, but not limited, to those listed below) may be used by the fund, including for the purposes of managing the risks of the portfolio and gaining exposure to certain asset classes.

- Forward currency exchange contracts (including, but not limited to, cross-currency forwards)
- Buying and selling over-the-counter and exchange traded options (including, but not limited to, currency options and options on interest rates)
- Swaps (including, but not limited to, credit default swaps (single name and index/basket), total return swaps, interest rate swaps, currency swaps, cross currency swaps)
- Futures and options on futures (including, but not limited to, futures on interest rates, bonds, fixed income indexes, securities and currencies)
- Structured notes or securities (including, but not limited to, credit linked notes), including where coupon or principal payments are linked or indexed to non-U.S. exchange rates, index returns, yield curve shapes, or other eligible investments

There are no limitations with respect to the number or combination of derivative instruments which may be used at any given time or the frequency with which the investment manager may use derivatives to implement the investment strategy. The investment manager may use derivatives for hedging purposes, as well as for gaining long and short exposures.

Under normal market conditions, the investment manager generally expects to utilize derivatives to gain exposures in an amount comparable to an equivalent unleveraged portfolio of bonds, but may exceed this amount on an opportunistic basis.

The fund may take advantage of opportunities in other derivative instruments which are not presently contemplated for the Fund or which are not currently available but which may be developed, to the extent such opportunities are consistent with the Fund's investment objective.

**Leverage**

The fund may leverage its capital if the investment manager believes that the use of leverage may enable the fund to achieve a higher rate of return. Accordingly, the fund would pledge its securities to the lender in order to borrow additional funds for investment purposes. Under normal market conditions, the investment manager generally does not expect to borrow additional funds for investment purposes, but on an opportunistic basis, may borrow up to 35% of total net assets of the fund for investment purposes (this excludes short-term borrowings for temporary cash management purposes). The investment manager may utilize derivative instruments including, but not limited to, futures, swaps, forwards, and options for both hedging and investment purposes, which may be considered by some as forms of leverage but are not included in this limit.

**Temporary Investments**

When the investment manager believes market or economic conditions are unfavorable for participants, is unable to locate suitable investment opportunities, or seeks to maintain liquidity, the investment manager may invest up to one hundred percent (100%) of the fund's assets in U.S. or non-U.S. currency denominated short-term investments, including cash or cash equivalents.

## **Real Estate**

### **Investment Guidelines**

The Board reserves the right to consider investment of the Fund's assets in real property, either on a direct basis or as a participant in a commingled real estate fund managed by a bank, insurance company, or other professional real estate investment manager. Real estate investments will be diversified to the extent possible both by geographic location and property type.

**Private real estate** managers are expected to invest in private real estate equity located within the United States or the District of Columbia. The following types of investments may be purchased by the manager: private real estate equity, equity-orientated debt, mortgages, construction loans, mezzanine debt on real estate, and private investment vehicles in such instruments designed for tax-exempt investors. The emphasis in the portfolio will be on investments in the stabilized operating stages of their life cycle; however, riskier equity investments in the development, leasing, and redevelopment stages will also be considered in minority positions in the portfolios. The manager should manage risk by using investment quality assets for their type and location. The portfolio should be diversified by property type (office, retail, industrial, or residential) and by the various geographic regions of the country. Leverage is to be limited to no more than 30% of the fund.



## **Master Limited Partnerships**

### **Investment Guidelines**

#### **Investment Objective**

The investment objective is to achieve long-term growth of capital and outperform the S&P MLP Index.

#### **Investment Strategy**

Management of the portfolio will seek to achieve the investment objective through investments primarily in MLPs and energy-related C-corporations. Security and sector selection, portfolio structure and timing of purchases and sales are delegated to the manager of the portfolio, subject to these guidelines.

#### **Portfolio Restrictions**

- The portfolio will hold approximately 20-30 securities.
- No single security will exceed the greater of 10% of the portfolio's market value or 120% of the security's weight within the benchmark.
- Cash and Cash Equivalents will be no more than 10% of the portfolio's assets
- Authorized investments include MLPs, securities of energy-related C-corporations and limited liability energy companies that trade on United States stock exchanges, as well as initial public offerings ("IPOs") of these investments.

## **Private Equity**

### **Investment Guidelines**

#### **Introduction**

The private equity investments made on behalf of El Paso City Employees' Pension Fund ("EPCEPF") will consist primarily of limited partnership investments in diversified private equity portfolios (e.g., venture capital, acquisition, special situation, subordinated debt, and restructuring funds, etc.). EPCEPF will invest in private equity through institutional closed-end, finite-life commingled private equity fund-of-funds vehicles. Eligible fund-of-funds may employ either a primary partnership or secondary partnership strategy. The fund-of-funds vehicles will be limited liability partnerships, limited liability corporations, or group trusts. Investments directly in stand-alone corporate finance limited partnerships and direct investments in companies are not currently considered appropriate. The vehicle's manager(s) will have discretion with respect to the management of the fund-of-funds investment program, operating within the parameters delineated in the commingled fund's legal documentation.

To maintain an appropriate funded status on a net asset value basis, EPCEPF will be required to make periodic commitments to additional fund-of-funds vehicles managed by either the same or different fund-of-funds managers. EPCEPF's staff will work with the consultant and the managers to determine appropriate commitment timing and amounts and periodically present a recommended plan to the Investment Committee.

To ensure adequate access and diversification, EPCEPF may utilize multiple fund-of-funds providers. There is no specific limit to the number of vendors to be utilized. However, EPCEPF will limit the number of vendors employed to the extent practical. Only those firms committed to providing ongoing access to the private equity arena through fund-of-funds offerings, that have a demonstrated record of investing client funds in top tier private equity partnerships and that limit assets accepted for management to sums that can in fact be committed in top tier funds will be considered.

EPCEPF recognizes that many well-qualified fund-of-funds providers make direct private equity investments within the fund-of-funds vehicles. Such investments are permissible provided that they constitute a comparatively small portion of the total fund of funds asset base (typically less than 20%). These direct investments are not required and EPCEPF's staff, when provided a choice, may elect to exclude such investments.

## **Investment Objective**

The investment objective of the private equity allocation is to achieve consistent positive real returns and to maximize long-term total return within prudent levels of risk through capital appreciation and diversification. EPCEPF's holdings will be professionally managed on a cash-to-cash basis and will have broad exposure to all key private corporate finance strategies (e.g., venture capital, acquisition, special situation, etc.), with allocations to the various strategies diversified in a manner consistent with institutional private equity programs generally.

## **Performance Objectives**

Due to the inevitability of short-term market fluctuations that may cause variations in the investments' performance and the long lead-time associated with private equity, it is intended that the performance objectives outlined below will be achieved by the fund-of-funds over the life of the vehicle(s), generally 12 years. However, the Board reserves the right to evaluate the funds' interim performance. Annual performance will be evaluated to test progress toward attainment of these longer-term goals. It is understood that there are likely to be short-term periods during which performance deviates from expectations. Minimum expectations are as follows:

1. It is expected that the private equity program will over rolling 5-year periods provide net of fee returns in excess of those available in the public markets. The return target for the private equity program is the Russell 3000 Index plus 300 basis points calculated on a time-weighted basis. The rate of return for the fund-of-funds will also be calculated on an internal rate of return basis net of all fees and expenses.
2. The fund's IRR performance will also be benchmarked on a vintage year basis against peer groups in the Thomson Reuter's Private Equity Database. These return comparisons will be net of underlying partnership fees and expenses, but gross of the fund-of-funds' fees and expenses. It is expected that the vehicles will attain performance rankings consistent with the top-quartile levels of return evidenced in the database.

Attainment of these objectives does not guarantee continued investment by the Board in a specific manager's fund-of-funds vehicles, nor does failure to achieve these guidelines ensure a lack of future investment support for follow-on vehicles. Providers are selected at the discretion of the Board.

In private equity investing there is the risk of sustaining a loss on any of the individual investments. It is EPCEPF's expectation that, while specific investments may incur losses of all or part of capital invested, a diversified portfolio of holdings will produce a positive rate of return in the expected range set forth above.

**Guidelines**

As private equity fund-of-funds vehicles are commingled, closed-end, finite-life limited liability entities, the investment guidelines will be determined by the fund-of-funds legal documentation. But, the vehicle's manager in managing the portfolio should take prudent care. In addition, the following stipulation(s) apply:

- The EPCEPF funds invested in the pooled/fund-of-funds vehicle should not represent more than 20% of the total market value of the pooled/fund-of-funds. It is also preferred that this holds true for any other investor in these pooled/fund-of-funds.
- The manager of the fund-of-funds vehicle shall be a Bank or a registered advisor under the Investment Advisors Act of 1940.
- If the fund-of-funds provides the option of receiving distributions in cash or securities, the Trust will opt to receive cash.

**Reporting Requirements**

Reporting requirements will be governed by the fund-of-funds legal documentation, which at a minimum will provide for quarterly unaudited financial statements and other relevant investment holdings-related exhibits, and annual audited financial statements and relevant investment holdings-related exhibits.

## **Absolute Return**

### **Investment Guidelines**

In order to ensure adequate diversification and prudently manage the costs associated with the custody of absolute return investments, these investments will be made using a commingled fund.

As such, the investment guidelines will be governed by the fund's prospectus.

### **Investment Objective**

The investment objective is to achieve long-term growth of capital with less volatility than public equities and out-perform the 60% MSCI ACWI/40% BC Global Aggregate Index.

### **Investment Strategy**

Management of these types of portfolios will seek to achieve the investment objective through a variety of investments detailed in the section below. Security and sector selection, portfolio structure and timing of purchases and sales are delegated to the manager of the portfolio, subject to these guidelines.

### **Portfolio Restrictions**

Permissible Investments include the following:

- Common Stock
- ADRs
- GDRs
- Preferred Stock
- Exchange-traded Funds ("ETFs")
- Participation Notes
- Fixed Income Securities
- Futures
- Options
- Real Estate (tradable securities)
- Commodities (tradable securities)
- Cash and Cash Equivalents

Currency exposures may be obtained through currency spot, forward, and swap contracts.

## **Cash**

### **Investment Guidelines**

The investment objective is to produce a return that equates to prevailing short-term rates applicable to the quality specified below.

All monies not deployed in other permitted investments shall be invested in short-term investment vehicles as provided below.

Money market instruments shall include:

- Direct obligations of the U.S. Treasury including bills, notes, and bonds, and repurchase agreements secured by those obligations.
- U.S. Government and U.S. Treasury money market mutual funds that are SEC registered and comply with Rule 2(a)-7 under the Investment Company Act of 1940. The investment guidelines will be governed by the fund's prospectus.

## Investment Manager Excess Returns

The table below details the time-weighted rates of return for the fund's investment managers over various time periods ended August 31, 2018. Negative manager excess returns are shown in red, positive excess returns in blue. Returns for one year or greater are annualized. The first set of returns for each asset class represents the composite returns for all the fund's accounts for that asset class.

### Returns for Periods Ended August 31, 2018

	Last Month	Last Year	Last 3 Years	Last 5 Years
<b>Domestic Equity</b>	<b>4.02%</b>	<b>21.03%</b>	<b>15.73%</b>	<b>13.79%</b>
Russell 3000 Index	3.51%	20.25%	15.86%	14.25%
<b>Excess Return</b>	<b>0.51%</b>	<b>0.78%</b>	<b>(0.14%)</b>	<b>(0.46%)</b>
Mellon Equity Index (06/94)	3.26%	19.70%	16.14%	14.57%
S&P 500 Index	3.26%	19.66%	16.11%	14.52%
<b>Excess Return</b>	<b>0.00%</b>	<b>0.04%</b>	<b>0.03%</b>	<b>0.04%</b>
Mellon Dynamic US Equity (12/13)	4.05%	22.25%	19.80%	-
S&P 500 Index	3.26%	19.66%	16.11%	14.52%
<b>Excess Return</b>	<b>0.79%</b>	<b>2.58%</b>	<b>3.69%</b>	<b>-</b>
Vulcan All Cap (12/13)**	2.73%	17.51%	12.62%	-
Russell 3000 Index	3.51%	20.25%	15.86%	14.25%
<b>Excess Return</b>	<b>(0.78%)</b>	<b>(2.74%)</b>	<b>(3.24%)</b>	<b>-</b>
Wedge (12/11)	1.45%	14.02%	12.99%	11.56%
Wedge Spliced Index*	4.29%	23.33%	14.25%	11.76%
<b>Excess Return</b>	<b>(2.84%)</b>	<b>(9.31%)</b>	<b>(1.25%)</b>	<b>(0.20%)</b>
Riverbridge (10/13)	9.04%	32.02%	16.65%	-
Riverbridge Spliced Index****	4.29%	23.33%	14.25%	11.91%
<b>Excess Return</b>	<b>4.75%</b>	<b>8.69%</b>	<b>2.40%</b>	<b>-</b>
<b>International Equity</b>	<b>(1.74%)</b>	<b>3.01%</b>	<b>8.49%</b>	<b>5.84%</b>
MSCI ACWI ex-US IMI Index	(1.94%)	3.49%	8.43%	5.78%
<b>Excess Return</b>	<b>0.20%</b>	<b>(0.48%)</b>	<b>0.06%</b>	<b>0.06%</b>
Mellon International (03/13)	(1.93%)	5.03%	7.45%	6.06%
MSCI EAFE Index	(1.93%)	4.39%	7.04%	5.73%
<b>Excess Return</b>	<b>(0.00%)</b>	<b>0.64%</b>	<b>0.41%</b>	<b>0.33%</b>
Franklin Templeton Int'l Equity (04/13)	(1.60%)	3.30%	8.31%	6.97%
MSCI ACWI ex-US Small Cap	(0.97%)	5.35%	10.63%	8.05%
<b>Excess Return</b>	<b>(0.62%)</b>	<b>(2.05%)</b>	<b>(2.32%)</b>	<b>(1.09%)</b>
Lazard International Equity (04/13)	(0.95%)	6.23%	7.18%	6.24%
MSCI ACWI ex-US IMI	(1.94%)	3.49%	8.43%	5.78%
<b>Excess Return</b>	<b>0.99%</b>	<b>2.74%</b>	<b>(1.25%)</b>	<b>0.45%</b>
AQR Emerging Markets (05/14)	(2.25%)	(3.66%)	11.22%	-
MSCI Emerging Mkts Idx	(2.67%)	(0.32%)	11.83%	5.42%
<b>Excess Return</b>	<b>0.42%</b>	<b>(3.34%)</b>	<b>(0.61%)</b>	<b>-</b>
<b>Private Equity</b>	<b>0.00%</b>	<b>5.59%</b>	<b>9.52%</b>	<b>13.15%</b>
Russell 3000 Index	3.51%	20.25%	15.86%	14.25%
<b>Excess Return</b>	<b>(3.51%)</b>	<b>(14.66%)</b>	<b>(6.34%)</b>	<b>(1.10%)</b>
PAPEF VII (01/13)*****	0.00%	8.70%	10.39%	11.41%
Russell 3000 Index	3.51%	20.25%	15.86%	14.25%
<b>Excess Return</b>	<b>(3.51%)</b>	<b>(11.55%)</b>	<b>(5.47%)</b>	<b>(2.84%)</b>
PASF II (01/13)*****	0.00%	4.81%	7.94%	16.02%
Russell 3000 Index	3.51%	20.25%	15.86%	14.25%
<b>Excess Return</b>	<b>(3.51%)</b>	<b>(15.44%)</b>	<b>(7.92%)</b>	<b>1.76%</b>
PAPEF VIII (04/16)*****	0.00%	7.49%	-	-
Russell 3000 Index	3.51%	20.25%	15.86%	14.25%
<b>Excess Return</b>	<b>(3.51%)</b>	<b>(12.76%)</b>	<b>-</b>	<b>-</b>
PASF III (01/17)*****	0.00%	(5.02%)	-	-
Russell 3000 Index	3.51%	20.25%	15.86%	14.25%
<b>Excess Return</b>	<b>(3.51%)</b>	<b>(25.27%)</b>	<b>-</b>	<b>-</b>
PAPEF IX (06/18)*****	0.00%	-	-	-
Russell 3000 Index	3.51%	20.25%	15.86%	14.25%
<b>Excess Return</b>	<b>(3.51%)</b>	<b>-</b>	<b>-</b>	<b>-</b>

All returns are net of fees.

Fiscal Year is September 1st - August 31st.

\*Wedge Index was Russell 2500 through 12/31/2013, Russell 2000 through 6/30/2016, and Russell 2500 thereafter.

\*\*Fund is under watch.

\*\*\*\* Riverbridge Index was Russell 2000 through 6/30/2016 and Russell 2500 thereafter.

\*\*\*\*\* Portfolio Advisors is lagged 1 quarter and revalued once each quarter.

## Investment Manager Excess Returns

The table below details the time-weighted rates of return for the fund's investment managers over various time periods ended August 31, 2018. Negative manager excess returns are shown in red, positive excess returns in blue. Returns for one year or greater are annualized. The first set of returns for each asset class represents the composite returns for all the fund's accounts for that asset class.

### Returns for Periods Ended August 31, 2018

	Last Month	Last Year	Last 3 Years	Last 5 Years
<b>Fixed Income</b>				
Bimbg Aggregate Index	0.64%	(1.05%)	1.76%	2.49%
<b>Excess Return</b>	<b>(1.33%)</b>	<b>(0.65%)</b>	<b>0.16%</b>	<b>(0.13%)</b>
Mellon Agg Index (01/06)	0.65%	(1.68%)	1.20%	2.11%
Bimbg Aggregate Index	0.64%	(1.05%)	1.76%	2.49%
<b>Excess Return</b>	<b>0.00%</b>	<b>(0.63%)</b>	<b>(0.56%)</b>	<b>(0.38%)</b>
Janus Core Plus (11/12)	0.68%	(0.94%)	1.82%	2.63%
Bimbg Aggregate Index	0.64%	(1.05%)	1.76%	2.49%
<b>Excess Return</b>	<b>0.04%</b>	<b>0.11%</b>	<b>0.06%</b>	<b>0.14%</b>
Franklin Templeton Global Plus(11/12)	(4.54%)	(3.19%)	2.62%	1.83%
Bimbg Multiverse Index	(0.00%)	(1.38%)	2.70%	1.50%
<b>Excess Return</b>	<b>(4.54%)</b>	<b>(1.81%)</b>	<b>(0.08%)</b>	<b>0.33%</b>
<b>Real Estate</b>				
Real Estate Benchmark****	0.62%	7.82%	8.28%	10.25%
<b>Excess Return</b>	<b>(0.62%)</b>	<b>(0.56%)</b>	<b>(0.79%)</b>	<b>(1.45%)</b>
UBS Trumbull Fund (01/12)***(**)	0.00%	6.97%	6.83%	8.22%
NFI-ODCE Equal Weight Net	0.62%	7.82%	8.34%	10.02%
<b>Excess Return</b>	<b>(0.62%)</b>	<b>(0.85%)</b>	<b>(1.52%)</b>	<b>(1.80%)</b>
Heitman (10/15)***	0.00%	7.56%	-	-
NFI-ODCE Equal Weight Net	0.62%	7.82%	8.34%	10.02%
<b>Excess Return</b>	<b>(0.62%)</b>	<b>(0.27%)</b>	-	-
<b>MLPs</b>				
Salient Advisors (08/14)**	0.53%	8.65%	(0.33%)	-
S&P MLP Index	1.58%	9.32%	(0.71%)	(1.06%)
<b>Excess Return</b>	<b>(1.05%)</b>	<b>(0.67%)</b>	<b>0.38%</b>	-
<b>Absolute Return</b>				
60% ACWI/40% BC Gbl Agg	0.51%	6.21%	-	-
<b>Excess Return</b>	<b>(0.50%)</b>	<b>(2.77%)</b>	-	-
Allianz (11/15)	1.20%	9.28%	-	-
3-month Treasury Bill + 10%	0.96%	11.52%	-	-
<b>Excess Return</b>	<b>0.24%</b>	<b>(2.24%)</b>	-	-
AQR Style Premia (4/16)	(1.20%)	(3.57%)	-	-
3-month Treasury Bill + 8%	0.81%	9.52%	-	-
<b>Excess Return</b>	<b>(2.01%)</b>	<b>(13.09%)</b>	-	-
Invesco (7/17)	(1.00%)	(0.08%)	-	-
3-month Treasury Bill + 4%	0.50%	5.52%	-	-
<b>Excess Return</b>	<b>(1.50%)</b>	<b>(5.60%)</b>	-	-
<b>Cash</b>				
3-month Treasury Bill	0.18%	1.52%	0.79%	0.49%
<b>Excess Return</b>	<b>0.03%</b>	<b>0.71%</b>	<b>1.19%</b>	<b>1.08%</b>
<b>Total Fund</b>				
Strategic Blended Index*	0.72%	7.68%	8.03%	7.54%
<b>Excess Return</b>	<b>(0.50%)</b>	<b>(1.64%)</b>	<b>(0.98%)</b>	<b>(0.55%)</b>

\* Current Month Target = 27.0% Russell 3000 Index, 19.0% Bimbg Aggregate, 16.0% MSCI ACWI ex US IMI, 10.0% NCREIF NFI-ODCE Eq Wt Net, 9.0% MSCI ACWI, 7.0% Russell 3000 Index, 6.0% Bimbg Global Aggregate, 5.0% S&P MLP Index and 1.0% 3-month Treasury Bill.

\*\*Fund is under watch.

\*\*\* UBS Trumbull, and Heitman are re-valued once a quarter.

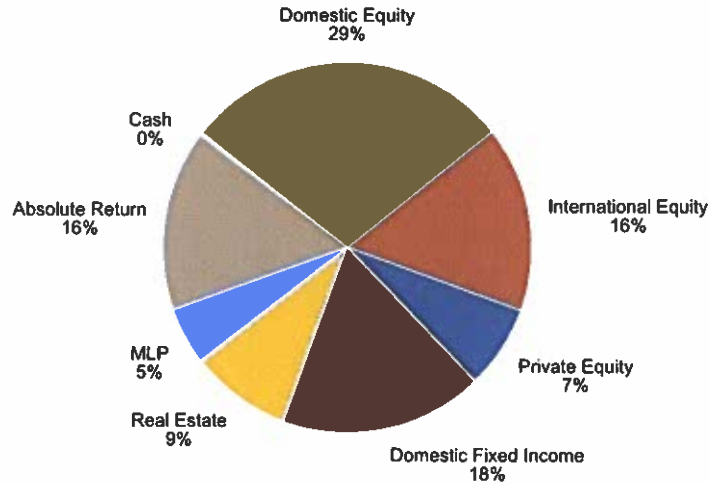
\*\*\*\* The Real Estate Benchmark is the NFI-ODCE Equal Weight Net as of 1/31/2017.



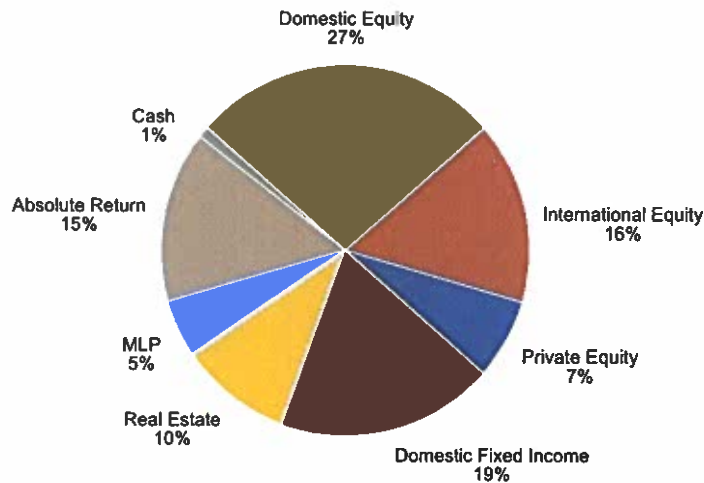
## Actual vs Target Asset Allocation

The first chart below shows the Fund's asset allocation as of August 31, 2018. The second chart shows the Fund's target asset allocation as outlined in the investment policy statement.

### Actual Asset Allocation



### Target Asset Allocation



Asset Class	\$Dollars Actual	Percent Actual	Percent Target	Percent Difference	\$Dollars Difference
Domestic Equity	232,806,622	28.6%	27.0%	1.6%	13,163,725
International Equity	132,553,731	16.3%	16.0%	0.3%	2,394,986
Private Equity	59,193,700	7.3%	7.0%	0.3%	2,249,247
Domestic Fixed Income	144,220,094	17.7%	19.0%	(1.3%)	(10,343,418)
Real Estate	73,095,029	9.0%	10.0%	(1.0%)	(8,254,190)
MLP	40,423,285	5.0%	5.0%	(0.0%)	(251,324)
Absolute Return	128,527,503	15.8%	15.0%	0.8%	6,503,672
Cash	2,672,213	0.3%	1.0%	(0.7%)	(5,462,708)
Total	813,492,177	100.0%	100.0%		

\*Current Month Target Performance is calculated using monthly rebalancing.

## Investment Manager Asset Allocation

The table below contrasts the distribution of assets across the Fund's investment managers as of August 31, 2018, with the distribution as of July 31, 2018. The change in asset distribution is broken down into the dollar change due to Net New Investment and the dollar change due to Investment Return.

### Asset Distribution Across Investment Managers

	August 31, 2018		Net New Inv.	Inv. Return	July 31, 2018	
	Market Value	Weight			Market Value	Weight
<b>Domestic Equity</b>	<b>\$232,806,622</b>	<b>28.62%</b>	<b>\$(141,261)</b>	<b>\$9,132,390</b>	<b>\$223,815,493</b>	<b>27.66%</b>
Mellon Equity Index	73,313,766	9.01%	0	2,315,090	70,998,676	8.77%
Mellon Dynamic US Equity	55,781,605	6.86%	0	2,168,991	53,612,614	6.63%
Vulcan All Cap**	33,956,400	4.17%	0	903,067	33,053,333	4.08%
Wedge	31,748,185	3.90%	(64,638)	518,041	31,294,782	3.87%
Riverbridge	38,006,665	4.67%	(76,624)	3,227,201	34,856,088	4.31%
<b>International Equity</b>	<b>\$132,553,731</b>	<b>16.29%</b>	<b>\$(19,794)</b>	<b>\$(2,323,637)</b>	<b>\$134,897,163</b>	<b>16.67%</b>
Mellon International Stock Index	50,923,862	6.26%	0	(1,004,794)	51,928,657	6.42%
LSV*	917	0.00%	0	(5)	922	0.00%
Franklin Templeton Int'l Equity	25,932,005	3.19%	0	(421,039)	26,353,044	3.26%
Lazard International Equity	27,220,866	3.35%	0	(260,856)	27,481,722	3.40%
AQR Emerging Markets	28,476,081	3.50%	(19,794)	(636,943)	29,132,818	3.60%
<b>Private Equity</b>	<b>\$59,193,700</b>	<b>7.28%</b>	<b>\$0</b>	<b>\$0</b>	<b>\$59,193,700</b>	<b>7.31%</b>
PAPEF VII	25,484,860	3.13%	0	0	25,484,860	3.15%
PASF II	12,556,096	1.54%	0	0	12,556,096	1.55%
PAPEF VIII	13,717,572	1.69%	0	0	13,717,572	1.70%
PASF III	5,722,086	0.70%	0	0	5,722,086	0.71%
PAPEF IX	1,713,086	0.21%	0	0	1,713,086	0.21%
<b>Domestic Fixed Income</b>	<b>\$144,220,094</b>	<b>17.73%</b>	<b>\$(43,796)</b>	<b>\$(950,828)</b>	<b>\$145,214,717</b>	<b>17.95%</b>
Mellon Aggregate Index	37,121,869	4.56%	0	238,024	36,883,845	4.56%
Janus Core Plus	71,078,012	8.74%	(43,796)	525,101	70,596,707	8.72%
Franklin Templeton Global Plus	36,020,213	4.43%	0	(1,713,953)	37,734,165	4.66%
<b>Real Estate</b>	<b>\$73,095,029</b>	<b>8.99%</b>	<b>\$0</b>	<b>\$0</b>	<b>\$73,095,029</b>	<b>9.03%</b>
UBS Trumbull Fund**	36,990,480	4.55%	0	0	36,990,480	4.57%
Heitman	36,104,549	4.44%	0	0	36,104,549	4.46%
<b>MLP</b>	<b>\$40,423,285</b>	<b>4.97%</b>	<b>\$(69,593)</b>	<b>\$281,651</b>	<b>\$40,211,227</b>	<b>4.97%</b>
Salient Advisors**	40,423,285	4.97%	(69,593)	281,651	40,211,227	4.97%
<b>Absolute Return</b>	<b>\$128,527,503</b>	<b>15.80%</b>	<b>\$0</b>	<b>\$11,403</b>	<b>\$128,516,100</b>	<b>15.88%</b>
Allianz	62,930,825	7.74%	0	748,308	62,182,518	7.68%
AQR Style Premia	36,681,410	4.51%	0	(443,872)	37,125,282	4.59%
Invesco	28,915,268	3.55%	0	(293,033)	29,208,300	3.61%
<b>Cash</b>	<b>\$2,672,213</b>	<b>0.33%</b>	<b>\$(1,615,219)</b>	<b>\$12,652</b>	<b>\$4,274,780</b>	<b>0.53%</b>
<b>Total Fund</b>	<b>\$813,492,177</b>	<b>100.0%</b>	<b>\$(1,889,663)</b>	<b>\$6,163,631</b>	<b>\$809,218,209</b>	<b>100.0%</b>

\*Fund has been liquidated, only cash position remains.

\*\*Fund is under watch.

CITY OF EL PASO EMPLOYEES RETIREMENT TRUST  
(A Component Unit of the City of El Paso, Texas)  
SCHEDULE OF MANAGEMENT FEES AND BROKER COMMISSIONS  
AUGUST 31, 2018

MANAGEMENT FEES

FIXED INCOME MANAGERS	\$176,067.00
EQUITY MANAGERS	\$826,625.00
BANK COLLECTIVE INVESTMENT FUNDS MANAGERS	\$236,122.00
COMMINGLED FIXED INCOME FUNDS MANAGERS	\$527,697.00
COMMINGLED EQUITY FUNDS MANAGERS	\$465,638.00
REAL ESTATE INVESTMENT TRUST MANAGERS	\$0.00
PRIVATE REAL ESTATE MANAGERS	\$668,778.00
PRIVATE EQUITY MANAGERS	\$1,145,419.00
ABSOLUTE VALUE MANAGERS	\$2,260,235.00
MASTER LIMITED PARTNERSHIP MANAGERS	\$272,196.00
TOTAL	<u>\$6,578,777.00</u>

BROKER COMMISSIONS

BAIRD, ROBERT W & CO INC, MILWAUKEE	\$1,557.61
BARCLAYS CAPITAL LE, NEW JERSEY	\$2,508.05
BARCLAYS CAPITAL LE, NEW YORK	\$3,796.44
BERNSTEIN SANFORD C & CO, NEW YORK	\$2,369.23
BTIG LLC, NEW YORK	\$1,525.61
CANTOR FITZGERALD & CO INC, NEW YORK	\$5,034.60
CITIGROUP GBL MKTS INC, NEW YORK	\$2,411.06
GOLDMAN SCAHS & CO, NY	\$2,225.28
J.P. MORGAN CLEARING CORP, NY	\$2,422.51
JEFFERIES & CO INC, NEW YORK	\$1,717.59
JONESTRADING INSTL SVCS LLC, NEW YORK	\$2,958.75
JONESTRADING INSTL SVCS LLC, WESTLAKE	\$15,205.62
LIQUIDNET INC., NEW YORK	\$3,405.77
MERRILL LYNCH PIERCE FENNER SMITH INC NY	\$6,483.12
MORGAN STANLEY & CO INC, NY	\$4,338.20
USB SECURITIES LLC, STAMFORD	\$1,321.01
WELLS FARGO SECURITIES LLC, CHARLOTTE	\$2,089.90
WILLAM BLAIR & CO, CHICAGO	\$1,303.80
OTHER	\$7,149.67
TOTAL	<u>\$68,266.21</u>

## ACTUARIAL SECTION



February 6, 2019

Mr. Robert B. Ash  
*Pension Administrator*  
City of El Paso Employees' Retirement Trust  
1039 Chelsea St.  
El Paso, TX 79903

Dear Robert,

This report summarizes the results of the September 1, 2018 actuarial valuation of the City of El Paso Employees Retirement Trust (Plan).

The primary purposes of the valuation are to (i) determine the adequacy of the current contribution rate of the City, (ii) describe the current financial condition of the Plan, and (iii) analyze changes in the Plan's condition since the last valuation.

Valuations are prepared biennially, as of September 1 of even years. September 1 is the first day of the Plan's plan year. Interim valuations are prepared as of September 1 of odd years based on updated assets and a roll-forward of liabilities from the previous valuation.

Use of this report for any other purpose or by anyone other than the City and the Plan's auditors may not be appropriate and may result in mistaken conclusions because of failure to understand applicable assumptions, methods, or inapplicability of the report for that purpose. Because of the risk of misinterpretation of actuarial results, Buck recommends requesting it to perform an advance review of any statement, document, or filing based on information contained in this report. Buck will accept no liability for any such statement, document or filing made without prior review by Buck.

The actuarial valuation reflects the benefit and contribution provisions set forth in the Plan's statutes. A summary of the benefit provisions used in the valuation is presented in Schedule B. There were no changes in benefit provisions since the previous valuation.

The actuarial assumptions and methods used in the valuation are presented in Schedule C. In my opinion, the actuarial assumptions are reasonable, taking into account the experience of the Plan and reasonable long-term expectations, and represent my best estimate of the anticipated long-term experience under the Plan. The assumptions and methods are the same as those used in the previous valuation.

Member data for active, retired, and inactive members was supplied as of July 1, 2018 by the City. The City is solely responsible for the accuracy and comprehensiveness of the data. We did not verify the data submitted but did perform tests for consistency and reasonableness. Asset information was supplied by the City.

Future actuarial measurements may differ significantly from current measurements due to plan experience differing from that anticipated by the economic and demographic assumptions, increases or decreases expected as part of the natural operation of the methodology used for these measurements, and changes in plan provisions or applicable law. An analysis of the potential range of such future differences is beyond the scope of this valuation.

Where presented, references to "funded ratio" and "unfunded accrued liability" typically are measured on an actuarial value of assets basis. It should be noted that the same measurements using market value of assets would result in different funded ratios and unfunded accrued liabilities. Moreover, the funded ratio presented is appropriate for evaluating the need and level of future contributions but makes no assessment regarding the funded status of the Plan if the Plan were to settle (i.e., purchase annuities) for all or a portion of its liabilities.

This report was prepared under my supervision and in accordance with all applicable Actuarial Standards of Practice. I am a Fellow of the Society of Actuaries, an Enrolled Actuary, a Member of the American Academy of Actuaries, and a Fellow of the Conference of Consulting Actuaries. I meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

I am available to discuss this report with you at your convenience. I can be reached at (602) 803-6174.

Buck Global, LLC (Buck)



David J. Kershner, FSA, EA, MAAA, FCA  
Principal

## Section 1 – Summary of Results

	September 1, 2018	September 1, 2016
<b>Membership<sup>1</sup></b>		
Active	4,345	4,217
Terminated with deferred benefits <sup>2</sup>	181	141
Retired paid from Plan <sup>3</sup>	3,174	2,863
<b>Compensation</b>		
Total	\$ 167,225,529	\$ 156,336,028
Average	\$ 38,487	\$ 37,073
<b>Assets</b>		
Market value	\$ 820,416,288	\$ 723,103,443
Actuarial value	\$ 822,926,030	\$ 749,026,818
<b>Valuation Results</b>		
Actuarial accrued liability (AAL)	\$ 1,024,379,167	\$ 945,772,098
Assets (actuarial)	\$ 822,926,030	\$ 749,026,818
Funded ratio (actuarial)	80.3%	79.2%
Unfunded actuarial accrued liability (UAAL)	\$ 201,453,137	\$ 196,745,280
UAAL funding period	14 years	17 years
<b>30-year Funding Cost for the City</b>		
Normal cost rate	2.99%	3.24%
UAAL amortization rate	<u>6.87%</u>	<u>7.17%</u>
Total rate	9.86%	10.41%

<sup>1</sup> Census data is as of July 1 preceding the valuation date.

<sup>2</sup> Excludes terminated members entitled to refunds of contributions paid after July 1.

<sup>3</sup> Excludes retirees for whom annuities were purchased from Prudential, but whose cost-of-living increases are paid by the Plan.

## Section 2 – Comments on the Valuation

### Overview

The overall funding of the Plan has improved since the September 1, 2016 valuation. This is mainly due to a combination of lower-than-expected salary increases and better-than-expected asset returns over the past two-year period.

Section 3 shows in more detail the changes to the UAAL, the funding cost, and the UAAL funding period based on the current contribution rates.

### Funding Status

There are two significant measures of the funding status of the Plan. The first is the 30-year funding cost. This is the City contribution rate required to pay the normal cost and to amortize the UAAL over a 30-year period. This rate is currently 9.86% of total salary compared with the City's actual contribution rate of 14.05% of total salary. Section 3 shows a reconciliation of the changes between the 2016 and 2018 figures.

The other measure is the UAAL funding period. This is the length of time in years that will be required to amortize the current UAAL based on the current contribution rates. This period is currently 14 years, compared to 17 years in 2016.

### Benefit Provisions

Schedule B summarizes the benefit provisions of the Plan. The provisions were changed effective September 1, 2011 so that Members of the Plan prior to September 1, 2011 are eligible for the First Tier Plan, and Members of the Plan on or after September 1, 2011 are eligible for the Second Tier Plan. There are no significant benefits which were not taken into account in this valuation. There were no changes to the benefit provisions since the previous valuation.

### Actuarial Assumptions and Methods

Schedule C describes the assumptions and methods used for this valuation. An experience study was performed in 2016. Based on that study, the Board adopted assumption changes in 2016 to better reflect anticipated experience of the Plan. There were no changes to the actuarial assumptions or methods since the previous valuation.

### Financial Data

The financial data used in this report was provided by the City.

Section 5 shows a reconciliation of the Plan's assets between 2016 and 2018, and the development of the actuarial value of assets (AVA). To minimize volatility in contribution rates, we use an adjusted market value, which phases in market gains and losses (compared to the assumed investment return rate) over five years. The market returns for the two years since the last valuation were 10.4% and 8.4%, while the actuarial returns were 7.7% and 7.4%.

### Membership Statistics

Data on active and retired members was supplied by the City as of July 1, 2018. The active membership increased from 4,217 to 4,345 between 2016 and 2018, a 3.0% increase over the two-year period, while payroll grew from \$156.3 million to \$167.2 million over the same period, a 7.0% increase. Schedule A shows a summary of the membership data used in the valuation.



## Section 3 – Actuarial Funding Requirements

### Actuarial Liabilities, Costs and Funding Period

	September 1, 2018	September 1, 2016
1. Covered Payroll	\$ 167,225,529	\$ 156,336,028
2. Actuarial present value of future pay	\$ 1,318,186,404	\$ 1,204,554,432
3. Current contribution rates		
a. City	14.05%	14.05%
b. Member	<u>8.95%</u>	<u>8.95%</u>
c. Total	23.00%	23.00%
4. Normal cost rate		
a. Total (before adjustment for overtime)	12.42%	12.68%
b. Total (after adjustment for overtime)	11.94%	12.19%
c. Member contribution rate	8.95%	8.95%
d. Employer normal cost rate (4b – 4c)	2.99%	3.24%
5. Actuarial present value of future benefits	\$ 1,188,097,918	\$ 1,098,509,600
6. Actuarial present value of future normal costs (4a x 2)	\$ 163,718,751	\$ 152,737,502
7. Actuarial accrued liability (5 – 6)	\$ 1,024,379,167	\$ 945,772,098
8. Actuarial value of assets	\$ 822,926,030	\$ 749,026,818
9. Unfunded actuarial accrued liability (UAAL) (7 – 8)	\$ 201,453,137	\$ 196,745,280
10. 30-year funding cost for City		
a. Employer normal cost rate (4d)	2.99%	3.24%
b. UAAL amortization rate	<u>6.87%</u>	<u>7.17%</u>
c. Total	9.86%	10.41%
11. Margin over/(under) 30-year cost (3a – 10c)	4.19%	3.64%
12. Funding period to amortize UAAL	14 years	17 years

## Section 3 – Actuarial Funding Requirements (continued)

### Analysis of Change in UAAL

1. UAAL as of September 1, 2016	\$ 196,745,280
2. Changes due to:	
a. Expected increase/(decrease)	(6,193,226)
b. Actual contributions greater than expected	(6,201,749)
c. Other changes including liability experience	18,075,155
d. Asset experience	(972,323)
e. Assumption Changes	<u>0</u>
Total Changes	\$ 4,707,857
3. UAAL as of September 1, 2018	\$ 201,453,137

### Analysis of Change in Funding Cost

1. 30-year funding cost as of September 1, 2016	10.41%
2. Changes due to:	
a. Actual contributions greater than expected	(0.21)%
b. Liability experience	(0.31)%
c. Asset experience	(0.03)%
d. Assumption changes	<u>0.00%</u>
Total	(0.55)%
3. 30-year funding cost as of September 1, 2018	9.86%

## Section 3 – Actuarial Funding Requirements (continued)

### Analysis of Change in Funding Period

1. Funding period as of September 1, 2016	17 years
2. Changes due to:	
a. Passage of time	(2)
b. Actual contributions greater than expected	(1)
c. Liability experience	1
d. Asset experience	(1)
e. Assumption changes	<u>0</u>
Total	(3)
3. Funding period as of September 1, 2018	14 years

## Section 4 – Historical Funding Information

### Historical Funding Detail

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
September 1, 2008	552.8	631.6	78.8	87.5%	136.5	57.7%
September 1, 2010	569.7	710.0	140.3	80.2%	143.1	98.0%
September 1, 2012	581.7	788.2	206.5	73.8%	147.7	139.8%
September 1, 2014	663.1	859.7	196.7	77.1%	153.6	128.0%
September 1, 2016	749.0	945.8	196.7	79.2%	156.3	125.9%
September 1, 2018	822.9	1,024.4	201.5	80.3%	167.2	120.5%

### Schedule of Employer Contributions

Period Ending	Annual Required Contribution	Percentage Contributed
August 31, 2009	17,245,402	100%
August 31, 2010	17,626,236	100%
August 31, 2011	18,356,531	98%
August 31, 2012	19,605,418	100%
August 31, 2013	21,075,292	97%
August 31, 2014	22,649,727	96%
August 31, 2015	22,916,913	100%
August 31, 2016	23,370,111	100%
August 31, 2017	25,327,071	100%
August 31, 2018	25,651,488	100%

## Section 5 – Summary of Asset Information

### Reconciliation of Fund Assets

	Period Ending	
	August 31, 2018	August 31, 2017
1. Value of fund at beginning of period	\$ 776,552,623	\$ 723,103,443
2. Contributions		
a. City	\$ 25,651,488	\$ 25,327,071
b. Member	<u>15,540,713</u>	<u>15,154,341</u>
c. Total	\$ 41,192,201	\$ 40,481,412
3. Benefit payments	(61,114,382)	(61,077,565)
4. Investment earnings	65,481,720	75,370,973
5. Administrative expenses	(1,695,874)	(1,325,640)
6. Value of assets at end of period	\$ 820,416,288	\$ 776,552,623

## Section 5 – Summary of Asset Information (continued)

### Determination of Excess Investment Earnings to be Deferred

	Period Ending	
	August 31, 2018	August 31, 2017
1. Market value at beginning of period	\$ 776,552,623	\$ 723,103,443
2. Cash flows		
a. City contributions	\$ 25,651,488	\$ 25,327,071
b. Member contributions	15,540,713	15,154,341
c. Benefit payments	(58,224,939)	(57,972,792)
d. Refunds	<u>(2,889,443)</u>	<u>(3,104,773)</u>
e. Total	\$ (19,922,181)	\$ (20,596,153)
3. Weighted cash flows (2e x 50%)	\$ (9,961,091)	\$ (10,298,077)
4. Assets available (1 + 3)	\$ 766,591,532	\$ 712,805,366
5. Assumed investment return rate	7.50%	7.50%
6. Expected net return (4 x 5)	\$ 57,494,365	\$ 53,460,402
7. Actual net return		
a. Total investment return	\$ 65,481,720	\$ 75,370,973
b. Administrative expenses	<u>(1,695,874)</u>	<u>(1,325,640)</u>
c. Net return	\$ 63,785,846	\$ 74,045,333
8. Gains/(losses) subject to deferral (7c - 6)	\$ 6,291,481	\$ 20,584,931

## Section 5 – Summary of Asset Information (continued)

### Calculation of Actuarial Value of Assets

1. Market value of assets as of August 31, 2018 \$ 820,416,288
2. Deferral amounts

Year	Total Gain/(Loss)	Percent Deferred	Deferral Amount
2017-2018	\$ 6,291,481	80%	\$ 5,033,185
2016-2017	20,584,931	60%	12,350,958
2015-2016	(13,081,797)	40%	(5,232,719)
2014-2015	(73,305,829)	20%	<u>(14,661,166)</u>
Total			\$ (2,509,742)

3. Actuarial value of assets (1 – 2e) \$ 822,926,030

## Schedule A - Membership Data

	September 1, 2018 <sup>1</sup>	September 1, 2016 <sup>1</sup>
<b>1. Active members</b>		
a. Number vested	1,902	2,008
b. Number non-vested	<u>2,443</u>	<u>2,209</u>
c. Total	4,345	4,217
d. Covered payroll	\$ 167,225,529	\$ 156,336,028
e. Average annual pay	\$ 38,487	\$ 37,073
f. Average age	45.8	46.5
g. Average service (years)	10.1	10.6
<b>2. Retired members</b>		
a. Number currently being paid from Plan <sup>2</sup>	3,174	2,863
b. Total current annual benefit	\$ 59,700,507	\$ 52,488,661
c. Average current annual benefit	\$ 18,809	\$ 18,333
d. Average age	69.8	69.4
<b>3. Deferred vested members</b>		
a. Number entitled to deferred benefits <sup>3</sup>	181	141
b. Total deferred annual benefit	\$ 2,624,290	\$ 1,949,199
c. Average deferred annual benefit	\$ 14,499	\$ 13,824
d. Average age	48.4	49.7

<sup>1</sup> Census data provided as of July 1 preceding valuation date is assumed to be the same as of September 1. Compensation amounts have been adjusted for two months at assumed salary increases.

<sup>2</sup> Excludes retirees for whom annuities were purchased from Prudential, but whose cost-of-living increases are paid by the Plan (198 as of July 1, 2016 and 161 as of July 1, 2018).

<sup>3</sup> Excludes terminated members entitled to refunds of contributions paid after July 1 (311 members with \$3,002,034 in contributions as of July 1, 2016 and 504 members with \$4,579,540 in contributions as of July 1, 2018).



# Schedule B - Summary of Benefit Provisions

## First Tier Plan

### Final Wages

The greatest of (i) average of Member's total earnings in the 36 months before retirement, (ii) average of Member's base pay for the year before retirement, or (iii) Member's base pay in the month preceding retirement.

### Member

All classified civil service employees of the City of El Paso, except for members of the Policemen's or Firemen's Pension Fund. Permanent part-time employees and certain full-time employees not in the classified civil service are not required to participate but may elect to do so. Special rules apply to certain "grant-funded" employees. The First Tier Plan applies to employees who become plan participants prior to September 1, 2011.

### Credited Service

Years and months of service while a Member. At retirement, a Member may convert unused sick leave to service under the plan. An unlimited amount of sick leave may be converted to benefit service. Alternatively, up to six months of sick leave may be applied to meet a benefit eligibility requirement, but if so used, such service cannot also be used in the calculation of the benefit amount.

### Contribution Rates

Effective September 1, 2014, active members contribute 8.95% of his/her wages per year. The City contributes 14.05% of the member's wages per year.

## Service Retirement Benefits

### Normal Retirement Benefit

#### Eligibility

Age 55 with 10 years of Credited Service, age 60 with 7 years of Credited Service, or 30 years of Credited Service, if earlier.

#### Benefit

2.50% of Final Wages times years of Credited Service, subject to a minimum benefit of \$75.

### Early Retirement Benefit

#### Eligibility

Age 40 with 10 years of Credited Service, or age 45 with at least 7 years of Credited Service.

#### Benefit

2.50% of Final Wages times years of Credited Service, multiplied by the appropriate actuarial reduction factor.

### Deferred Retirement Benefit

#### Eligibility

Age 40 with 10 years of Credited Service, or age 45 with at least 7 years of Credited Service.

#### Benefit

2.50% of Final Wages times years of Credited Service, payable at early retirement age reduced in accordance with the Early Retirement Benefit or unreduced at normal retirement age.

## **Schedule B - Summary of Benefit Provisions (continued)**

### **Withdrawal (Refund) of Contributions**

#### **Eligibility**

Immediate.

#### **Benefit**

Total employee contributions without interest. If the member has more than five years of service, contributions are paid with interest, credited annually at 5.5%. No other benefits are payable under the Plan once the contributions are withdrawn.

### **Survivor Benefits**

#### **Qualified Surviving Spouse or Child Benefit**

##### **Eligibility**

Death of a Member due to a job-related accident or age 40 with ten years of service or age 45 with seven years of service.

##### **Benefit**

Amount payable if Member had retired immediately prior to death with a Joint and 100% option, subject to a \$75 per month minimum benefit. If death is due to a job-related accident, there is a minimum \$550 per month benefit and the benefit is computed as if the Member were age 70 with 30 years of service. Benefits payable to the surviving spouse continue for life or until remarriage. If Member was not eligible for Early Retirement or death was not due to a job-related accident, a refund of contributions is available to the beneficiary, as described above.

#### **Disability Retirement Benefit**

##### **Eligibility**

Disability as a result of a job-related cause or any injury not due to the Member's own fault if Member has seven years of service.

##### **Benefit**

2.50% of Final Wages times Credited Service, with a minimum benefit of \$75 per month (or \$250 per month if disability is job-related).

#### **Normal Form of Retirement Benefit**

Joint and 2/3 survivor annuity. Optional forms of benefit are life only, joint and 100% survivor, joint and 50% survivor, and modified cash refund.

## **Schedule B - Summary of Benefit Provisions (continued)**

### **Second Tier Plan**

#### **Final Wages**

The average of Member's total earnings in the 36 months before retirement.

#### **Member**

All classified civil service employees of the City of El Paso, except for members of the Policemen's or Firemen's Pension Fund. Permanent part-time employees and certain full-time employees not in the classified civil service are not required to participate but may elect to do so. Special rules apply to certain "grant-funded" employees. The Second Tier Plan applies to employees who become plan participants after August 31, 2011.

#### **Credited Service**

Years and months of service while a Member. At retirement, a Member may convert unused sick leave to service under the plan. An unlimited amount of sick leave may be converted to benefit service. Alternatively, up to six months of sick leave may be applied to meet a benefit eligibility requirement, but if so used, such service cannot also be used in the calculation of the benefit amount.

#### **Contribution Rates**

Effective September 1, 2014, active members contribute 8.95% of his/her wages per year. The City contributes 14.05% of the member's wages per year.

### **Service Retirement Benefits**

#### **Normal Retirement Benefit**

##### **Eligibility**

Age 60 with 7 years of Credited Service, or 35 years of Credited Service, if earlier.

##### **Benefit**

2.25% of Final Wages times years of Credited Service, subject to a minimum benefit of \$75, limited to 90% of the 3-year final average pay.

#### **Early Retirement Benefit**

##### **Eligibility**

Age 45 with 7 years of Credited Service.

##### **Benefit**

2.25% of Final Wages times years of Credited Service, multiplied by the appropriate actuarial reduction factor.

#### **Deferred Retirement Benefit**

##### **Eligibility**

Age 45 with 7 years of Credited Service.

##### **Benefit**

2.25% of Final Wages times years of Credited Service, payable at early retirement age reduced in accordance with the Early Retirement Benefit or unreduced at normal retirement age.

## **Schedule B - Summary of Benefit Provisions (continued)**

### **Withdrawal (Refund) of Contributions**

#### **Eligibility**

Immediate.

#### **Benefit**

Total employee contributions without interest. If the member has more than seven years of service, contributions are paid with interest, credited annually at 3.0%. No other benefits are payable under the Plan once the contributions are withdrawn.

### **Survivor Benefits**

#### **Qualified Surviving Spouse or Child Benefit**

##### **Eligibility**

Death of a Member due to a job-related accident or age 45 with seven years of service.

##### **Benefit**

Amount payable if Member had retired immediately prior to death with a Joint and 100% option, subject to a \$75 per month minimum benefit. If death is due to a job-related accident, there is a minimum \$550 per month benefit and the benefit is computed as if the Member were age 70 with 30 years of service. Benefits payable to the surviving spouse continue for life or until remarriage. If Member was not eligible for Early Retirement or death was not due to a job-related accident, a refund of contributions is available to the beneficiary, as described above.

#### **Disability Retirement Benefit**

##### **Eligibility**

Disability as a result of a job-related cause or any injury not due to the Member's own fault if Member has seven years of service.

##### **Benefit**

2.25% of Final Wages times Credited Service, with a minimum benefit of \$75 per month (or \$250 per month if disability is job-related).

#### **Normal Form of Retirement Benefit**

Joint and 2/3 survivor annuity. Optional forms of benefit are life only, joint and 100% survivor, joint and 50% survivor, and modified cash refund.

#### **Changes in Plan Provisions Since the Previous Valuation**

None.

# Schedule C - Statement of Actuarial Methods and Assumptions

## Basis for Assumptions

The economic and demographic assumptions used in the valuation were adopted by the Board in consultation with Buck. The Board's established practice is to review the experience of the Plan periodically to determine if any changes to the valuation assumptions are warranted. In general, the assumptions used in the valuation are based on recommendations made and approved by the Board as part of an Experience Study covering plan years from September 1, 2010 through August 31, 2014.

### Investment Return

7.50% per annum, net of expenses. This rate reflects an underlying inflation rate of 3.00% and a real rate of return of 4.50%.

### Separations Before Normal Retirement

Representative values of the assumed annual rates of withdrawal are as follows:

Age	Withdrawal					
	Years of Credited Service					
	1	2	3	4	5	>=6
25	10.0%	10.0%	9.00%	8.00%	7.00%	9.0%
30	10.0	10.0	9.00	8.00	7.00	10.0
35	10.0	10.0	9.00	8.00	7.00	5.0
40	10.0	10.0	9.00	8.00	7.00	4.0
45	10.0	10.0	9.00	8.00	7.00	2.5
50	10.0	10.0	9.00	8.00	7.00	1.5
55	10.0	10.0	9.00	8.00	7.00	1.5
60	10.0	10.0	9.00	8.00	7.00	1.5

### Mortality

Mortality rates for non-disabled participants are based on the RP-2014 employee tables with Blue Collar adjustment projected to 2030 using Scale BB. Mortality rates for disabled participants are based on the RP-2014 Tables for Disabled Lives.

### Disability

None assumed.

### Death

5% of deaths among active participants are assumed to be job-related deaths. The remaining 95% of deaths are assumed not to be job-related.

## Schedule C - Statement of Actuarial Methods and Assumptions (continued)

### Salary Increases

The assumed annual rates of future salary increase attributable to longevity and promotion are as follows:

Years of Service	Annual Rate of Salary Increase
0	4.50%
1	4.50
2	4.50
3	4.00
4	4.00
5	4.00
6	4.00
7	3.50
8	3.50
9	3.50
10	3.50
11	3.50
12	3.00
13	3.00
14	3.00
15	3.00
16	3.00
17	3.00
18	3.00
19	3.00
20	3.00
21	3.00
22	3.00
23	3.00
24 or more	3.00

Total payroll is assumed to increase 3.00% per year. This increase rate is solely due to the effect of inflation on salaries, with no allowance for future membership growth.

Overtime is assumed to be 4% of base and longevity pay.

## Schedule C - Statement of Actuarial Methods and Assumptions (continued)

### Retirement Rates

The percentage of those eligible for normal retirement assumed to retire at various ages is as follows:

Retirement Rates					
Age	Tier 1		Age	Tier 2	
	Male	Female		Male	Female
45	10.0%	9.0%	45	5.0%	5.0%
50	10.0	9.0	50	5.0	5.0
55	12.0	10.0	55	8.0	7.0
62	20.0	10.0	62	10.0	7.0
65	20.0	20.0	65	10.0	12.0
70	40.0	25.0	70	40.0	20.0
75	100.0	100.0	75	100.0	100.0

### Spouses

100% of active members are assumed to be married with the male three years older than the female. No children's benefits were valued.

### Form of Payment

85% of participants eligible for early retirement are assumed to be paid through a joint and 2/3 survivor annuity. The remaining 15% of participants eligible for early retirement are assumed to elect a refund of contributions.

### Future Expenses

None assumed.

### Valuation Method

The method used to determine Normal Cost and Accrued Actuarial Liability is the Entry Age Normal Cost Method. Under the Entry Age Normal Cost Method, an annual Normal Cost is determined for each covered active Member which is the contribution required to provide all the projected pension benefits assuming this contribution is payable over a period ending on the date of retirement (separation from active service) and expressed as a level percentage of compensation. The Actuarial Accrued Liability is determined as the excess of the total present value of all pension benefits over the total present value of future Normal Costs. The Unfunded Actuarial Accrued Liability as of the valuation date is determined as the excess of the Actuarial Accrued Liability over the Actuarial Value of Assets of the Plan.

## **Schedule C - Statement of Actuarial Methods and Assumptions (continued)**

### **Actuarial Value of Assets**

The actuarial value of assets is calculated based on the following formula:

$$\begin{aligned} \text{MV} & - (8/10) \times G/(L)_1 - (6/10) \times G/(L)_2 \\ & - (4/10) \times G/(L)_3 - (2/10) \times G/(L)_4 \end{aligned}$$

where:

MV = the market value of assets as of the valuation date

$G/(L)_i$  = the asset gain or (loss) (i.e., actual return on assets less expected return on assets) for the i-th year preceding the valuation date.

### **Changes in Methods and Assumptions Since the Previous Valuation**

None.



## **Schedule D – Glossary of Terms**

### **Actuarial Accrued Liability**

The portion, as determined by a particular cost method, of the total present value of benefits that is attributable to past service credit.

### **Actuarial Assumptions**

Estimates of future experience with respect to rates of mortality, disability, turnover, retirement rate or rates of investment income and salary increases. Actuarial assumptions (rates of mortality, disability, turnover and retirement) are generally based on past experience, often modified for projected changes in conditions. Economic assumptions (salary increases and investment income) consist of an underlying rate in an inflation-free environment plus a provision for a long-term average rate of inflation.

### **Actuarial Gain (Loss) or Liability/Asset Experience**

A measure of the difference between actual and expected experience based upon a set of actuarial assumptions.

### **Actuarial Present Value of Future Benefits**

Also referred to as the present value of benefits. It is the value, as of a specified date, of an amount payable in the future, where the amount has been adjusted to reflect both the time value of money and the probability that the payment is actually made.

### **Actuarial Present Value of Future Normal Costs**

The value, as of a specified date, of future normal costs, equal to the employer normal cost rate times the actuarial present value of future pay.

### **Actuarial Present Value of Future Pay**

The value, as of a specified date, of future pay where the amount has been adjusted to reflect both the future value of money and the probability that the payment is actually made.

### **Amortization Rate or UAAL Payment**

That portion of the pension plan contribution which is designed to pay off (amortize) the unfunded actuarial accrued liability in a systematic fashion.

### **Cost-of-living adjustments**

Postemployment benefit changes intended to adjust benefit payments for the effects of inflation.

### **Covered Payroll**

The rate of pay as of a specified date adjusted with a half-year salary increase based on the assumed salary increase assumptions.

### **Entry Age Actuarial Cost Method**

This method assumes that the annual costs are the level premiums needed from entry age until retirement age to fund the ultimate retirement benefit. These premiums are expressed as a percentage of salary. The portion of this actuarial present value allocated to a valuation year is called the normal cost.

## **Schedule D – Glossary of Terms (continued)**

### **Normal Cost**

The ongoing annual cost allocated to the system by a particular actuarial cost method for providing benefits (future cost). Normal cost payments are made during the working lifetime of the member.

### **Unfunded Actuarial Accrued Liability**

The excess of the actuarial accrued liability over the actuarial value of assets.

### **Vested Benefit**

The benefit an employee is entitled to, based on vesting service, even if the employee separates from active service prior to normal retirement age.

**Table 1 - The Number and Average Annual Wages of Active Members Distributed by Fifth Age and Service as of September 1, 2018**

Attained Age	Years of Credited Service										Total
	Under 1	1 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39	40 & up	
<b>Under 25</b>	56 24,314	64 26,965	0 0	0 0	0 0	0 0	0 0	0 0	0 0	0 0	120
<b>25 to 29</b>	101 29,753	257 32,599	34 28,457	0 0	0 0	0 0	0 0	0 0	0 0	0 0	392
<b>30 to 34</b>	61 30,700	253 33,256	136 40,020	19 40,219	0 0	0 0	0 0	0 0	0 0	0 0	469
<b>35 to 39</b>	60 34,609	185 35,377	136 37,473	96 38,945	11 37,985	1 37,624	0 0	0 0	0 0	0 0	489
<b>40 to 44</b>	37 29,570	150 36,575	124 38,648	125 46,591	63 48,171	11 40,431	2 63,222	0 0	0 0	0 0	512
<b>45 to 49</b>	41 30,175	123 36,352	104 38,293	133 40,897	102 45,846	78 42,148	28 40,660	1 48,357	0 0	0 0	610
<b>50 to 54</b>	28 32,598	87 39,658	110 34,400	109 38,367	106 41,153	91 47,403	92 46,126	19 52,665	1 52,154	0 0	643
<b>55 to 59</b>	15 32,284	76 35,178	95 35,725	117 37,658	104 37,977	77 44,054	90 44,546	42 46,492	4 118,978	1 42,901	621
<b>60 to 64</b>	9 40,561	31 36,729	52 37,478	74 38,230	67 40,408	43 43,992	42 54,058	19 46,111	10 80,125	4 75,615	351
<b>65 to 69</b>	4 37,131	10 35,540	14 56,480	26 42,471	20 36,292	13 39,414	13 52,026	7 52,953	1 48,143	5 65,954	113
<b>70 &amp; up</b>	1 36,037	1 36,531	2 88,634	7 35,880	5 33,033	2 47,737	2 37,096	2 34,064	0 0	3 40,290	25
<b>Total</b>	413	1,237	807	706	478	316	269	90	16	13	4,345

**Table 2 - The Number and Annual Retirement Allowances of Retired Members, Disabled Members and Beneficiaries by Age as of July 1, 2018**

Age	Number	Benefit	Average Benefit
Less than 20	1	\$ 15,829	\$ 15,829
29	1	8,527	8,527
32	1	16,842	16,842
33	1	24,161	24,161
37	1	7,999	7,999
39	1	5,400	5,400
42	1	5,803	5,803
45	3	36,235	12,078
46	2	37,959	18,980
47	2	18,727	9,364
48	7	54,534	7,791
49	4	43,419	10,855
50	3	43,450	14,483
51	12	119,387	9,949
52	15	277,117	18,474
53	17	189,580	11,152
54	16	213,505	13,344
55	26	692,190	26,623
56	57	1,107,009	19,421
57	62	1,500,329	24,199
58	68	1,563,936	22,999
59	87	1,828,612	21,019
60	101	2,556,388	25,311
61	91	1,888,866	20,757
62	105	2,170,926	20,675
63	131	2,776,987	21,198
64	113	2,223,316	19,675
65	151	3,228,606	21,381
66	133	2,808,589	21,117
67	138	2,874,681	20,831
68	130	2,479,173	19,071
69	117	2,026,332	17,319
70	129	2,805,499	21,748
71	122	2,696,898	22,106
72	153	3,102,826	20,280
73	105	1,880,278	17,907
74	81	1,342,140	16,570

**Table 2 - The Number and Annual Retirement Allowances of Retired Members, Disabled Members and Beneficiaries by Age as of July 2018 (continued)**

Age	Number	Benefit	Average Benefit
75	96	1,511,283	15,743
76	85	1,723,096	20,272
77	67	1,350,326	20,154
78	75	1,252,905	16,705
79	62	946,182	15,261
80	61	900,021	14,754
81	61	913,763	14,980
82	60	773,318	12,889
83	63	1,001,288	15,893
84	55	875,494	15,918
85	38	512,352	13,483
86	56	740,886	13,230
87	33	390,914	11,846
88	30	402,049	13,402
89	33	398,249	12,068
90	34	406,104	11,944
91 & over	<u>77</u>	<u>930,222</u>	<u>12,081</u>
TOTAL	3,174	\$ 59,700,507	\$ 18,809

**Table 3 - The Number and Future Annual Allowances of Terminated Members, Entitled to a Future Benefit by Age as of July 1, 2018**

Age	Number	Benefit	Average Benefit
Less than 25	1	\$ 960	\$ 960
28	1	960	960
30	1	17,880	17,880
32	3	5,832	1,944
33	3	20,325	6,775
34	1	2,188	2,188
35	4	34,191	8,548
36	1	5,660	5,660
37	1	63,480	63,480
38	3	68,520	22,840
39	5	86,695	17,339
40	6	129,564	21,594
41	2	8,160	4,080
42	5	38,258	7,652
43	3	14,007	4,669
44	7	82,339	11,763
45	6	93,063	15,511
46	8	78,484	9,811
47	6	151,463	25,244
48	10	281,731	28,173
49	7	92,004	13,143
50	5	68,616	13,723
51	9	188,084	20,898
52	9	105,945	11,772
53	11	115,090	10,463
54	15	286,592	19,106
55	15	201,778	13,452
56	8	128,982	16,123
57	3	35,008	11,669
58	7	49,275	7,039
59	3	30,840	10,280
61	5	79,496	15,899
63	2	21,720	10,860
64	1	3,120	3,120
66	1	19,170	19,170
70	1	10,013	10,013
71	<u>1</u>	<u>4,797</u>	<u>4,797</u>
<b>TOTAL</b>	<b>181</b>	<b>\$ 2,624,290</b>	<b>\$ 14,499</b>

# STATISTICAL SECTION

**City of El Paso Employees Retirement Trust**  
**Statements of Changes in Net Position Available for Benefits**

	2018	2017	2016	2015	2014	2013	2012	2011
<b>Additions</b>								
<b>Contributions</b>								
Employer	25,651,488	25,327,071	23,370,111	22,916,913	21,830,044	20,499,707	19,181,091	17,948,799
Participants	15,540,713	15,154,341	14,886,249	14,595,935	14,039,600	13,328,629	12,607,172	11,938,545
<b>Total contributions</b>	<u>41,192,201</u>	<u>40,481,412</u>	<u>38,256,360</u>	<u>37,512,848</u>	<u>35,869,644</u>	<u>33,828,336</u>	<u>31,788,263</u>	<u>29,887,344</u>
<b>Investment Income</b>								
Net appreciation (depreciation) in fair value of investments	64,832,061	74,716,005	37,856,062	(21,734,515)	103,082,579	62,831,147	43,642,344	65,579,647
Interest	3,915,267	3,808,906	4,444,138	4,888,211	5,484,840	4,183,790	1,306,942	2,899,936
Dividends	3,186,719	2,582,152	2,980,264	2,359,009	2,373,927	4,490,895	3,708,793	2,865,256
Securities lending income, net of expenses	6,801	45,478	90,861	126,526	117,691	273,912	146,097	146,709
Investment advisor fees	(6,578,777)	(5,783,774)	(5,104,720)	(3,510,570)	(3,336,994)	(1,873,429)	(2,097,716)	(2,546,539)
Increase in commission credits receivable			(6,532)	(1,577)	1,146	15,076	7,358	8,927
Miscellaneous income/(expenses)	10,418	2,206	-	-	-	-	-	-
<b>Net investment income (loss)</b>	<u>65,372,489</u>	<u>75,370,973</u>	<u>40,260,073</u>	<u>(17,872,916)</u>	<u>107,723,189</u>	<u>69,921,391</u>	<u>46,713,818</u>	<u>68,953,936</u>
<b>Total additions (deductions)</b>	<u>106,564,690</u>	<u>115,852,385</u>	<u>78,516,433</u>	<u>19,639,932</u>	<u>143,592,833</u>	<u>103,749,727</u>	<u>78,502,081</u>	<u>98,841,280</u>
<b>Deductions</b>								
Benefits paid to participants	58,094,939	57,972,792	51,554,209	48,419,841	49,375,280	43,021,060	41,688,297	37,686,480
Refunds	2,889,443	3,104,773	2,829,420	2,369,096	3,217,554	2,159,129	2,605,377	1,896,665
Prepaid COLA payments	130,000	-	-	-	-	-	-	-
Administrative expenses	2,036,643	1,325,640	1,417,530	1,355,351	1,143,272	1,176,347	1,108,470	918,940
<b>Total deductions</b>	<u>63,151,025</u>	<u>62,403,205</u>	<u>55,801,159</u>	<u>52,144,288</u>	<u>53,736,106</u>	<u>46,356,536</u>	<u>45,402,144</u>	<u>40,502,085</u>
<b>Change in Net Position</b>	<u>43,413,665</u>	<u>53,449,180</u>	<u>22,715,274</u>	<u>(32,504,356)</u>	<u>89,856,727</u>	<u>57,393,191</u>	<u>33,099,937</u>	<u>58,339,195</u>
<b>Net Position Available for Benefits, Beginning of Year</b>	<u>776,552,623</u>	<u>723,103,443</u>	<u>700,388,169</u>	<u>732,892,525</u>	<u>643,035,798</u>	<u>585,642,607</u>	<u>552,542,670</u>	<u>494,203,475</u>
<b>Net Position Available for Benefits, End of Year</b>	<u>\$ 819,966,288</u>	<u>\$ 776,552,623</u>	<u>\$ 723,103,443</u>	<u>\$ 700,388,169</u>	<u>\$ 732,892,525</u>	<u>\$ 643,035,798</u>	<u>\$ 585,642,607</u>	<u>\$ 552,542,670</u>



**City of El Paso Employees Retirement Trust**  
**Statements of Changes in Net Position Available for Benefits**  
**(Continued)**

	2011	2010	2009	2008	2007	2006	2005	2004
<b>Additions</b>								
<b>Contributions</b>								
Employer	17,948,799	17,626,236	17,245,402	16,505,427	14,574,850	13,239,686	12,707,913	12,987,074
Participants	11,938,545	11,814,128	11,533,666	11,169,467	9,763,642	8,872,231	8,492,888	8,578,958
<b>Total contributions</b>	<u>29,887,344</u>	<u>29,440,364</u>	<u>28,779,068</u>	<u>27,674,894</u>	<u>24,338,492</u>	<u>22,111,917</u>	<u>21,200,801</u>	<u>21,566,032</u>
<b>Investment Income</b>								
Net appreciation in fair value of investments	65,579,647	36,543,336	(49,772,720)	(32,191,401)	58,337,028	38,528,649	54,252,571	25,698,944
Interest	2,899,936	3,096,694	2,198,128	1,390,187	2,647,484	3,573,996	4,489,414	6,442,852
Dividends	2,865,256	2,696,987	2,967,150	5,223,787	4,256,079	2,515,307	2,179,770	3,120,981
Securities lending income, net of expenses	146,709	116,128	378,898	478,113	250,126	209,120	152,895	95,097
Investment advisor fees	(2,546,539)	(3,195,031)	(1,876,814)	(3,066,724)	(1,778,283)	(2,520,589)	(1,574,475)	(2,074,403)
Increase in commission credits receivable	8,927	35,815	37,452	(15,560)	46,965	30,455	54,352	(34,444)
<b>Net investment income (loss)</b>	<u>68,953,936</u>	<u>39,293,929</u>	<u>(46,067,906)</u>	<u>(28,181,598)</u>	<u>63,759,399</u>	<u>42,336,938</u>	<u>59,554,527</u>	<u>33,249,027</u>
<b>Total additions (deductions)</b>	<u>98,841,280</u>	<u>68,734,293</u>	<u>(17,288,838)</u>	<u>(506,704)</u>	<u>88,097,891</u>	<u>64,448,855</u>	<u>80,755,328</u>	<u>54,815,059</u>
<b>Deductions</b>								
Benefits paid to participants	37,686,480	35,223,728	32,854,259	30,114,367	30,189,990	25,754,190	23,932,789	22,120,587
Refunds	1,896,665	1,987,231	2,027,657	2,513,020	2,213,943	2,150,218	2,254,148	1,805,758
Administrative expenses	918,940	753,466	748,789	847,517	723,690	647,095	534,143	539,265
<b>Total deductions</b>	<u>40,502,085</u>	<u>37,964,425</u>	<u>35,630,705</u>	<u>33,474,904</u>	<u>33,127,623</u>	<u>28,551,503</u>	<u>26,721,080</u>	<u>24,465,610</u>
<b>Change in Net Position</b>	<u>58,339,195</u>	<u>30,769,868</u>	<u>(52,919,543)</u>	<u>(33,981,608)</u>	<u>54,970,268</u>	<u>35,897,352</u>	<u>54,034,248</u>	<u>30,349,449</u>
<b>Net Position Available for Benefits, Beginning of Year</b>	<u>494,203,475</u>	<u>463,433,607</u>	<u>516,353,150</u>	<u>550,334,758</u>	<u>495,364,490</u>	<u>459,467,138</u>	<u>405,432,890</u>	<u>375,083,441</u>
<b>Net Position Available for Benefits, End of Year</b>	<u>\$ 552,542,670</u>	<u>\$ 494,203,475</u>	<u>\$ 463,433,607</u>	<u>\$ 516,353,150</u>	<u>\$ 550,334,758</u>	<u>\$ 495,364,490</u>	<u>\$ 459,467,138</u>	<u>\$ 405,432,890</u>

**City of El Paso Employees Retirement Trust**  
**(A Component Unit of the City of El Paso, Texas)**  
**Schedule of Average Benefit Payment Amounts**

	Number Receiving Benefits	Total Current annual benefit	Average current annual benefit	Average monthly benefit
September 1, 2018	3,174	\$59,700,507	\$18,809	\$1,567
September 1, 2016	2,863	\$52,488,661	\$18,333	\$1,528
September 1, 2014	2,627	\$46,393,663	\$17,660	\$1,472
September 1, 2012	2,399	\$40,881,148	\$17,041	\$1,420
September 1, 2010	2,172	\$35,674,776	\$16,425	\$1,369
September 1, 2008	1,944	\$30,512,360	\$15,696	\$1,308
September 1, 2006	1,743	\$26,086,939	\$14,967	\$1,247
September 1, 2004	1,579	\$22,488,610	\$14,242	\$1,187

City of El Paso Employees Retirement Trust  
(A Component Unit of the City of El Paso, Texas)  
Average Benefit Payments by Years of Credited Service

Member Retiring & Receiving Benefit During Fiscal Year

		<u>Years of Credited Service</u>						
		<u>7-10</u>	<u>11-15</u>	<u>16-20</u>	<u>21-25</u>	<u>26-30</u>	<u>30+</u>	<u>All</u>
2018	Average monthly benefit	\$ 829	\$ 1,122	\$ 1,948	\$ 2,386	\$ 3,286	\$ 3,938	\$ 1,993
	Average monthly salary	\$ 3,676	\$ 3,247	\$ 4,124	\$ 3,813	\$ 4,412	\$ 4,322	\$ 3,863
	Number of retirees	36	44	40	28	30	17	195
2017	Average monthly benefit	\$ 628	\$ 1,059	\$ 1,777	\$ 2,194	\$ 3,228	\$ 3,536	\$ 2,002
	Average monthly salary	\$ 2,939	\$ 3,191	\$ 3,741	\$ 3,740	\$ 4,467	\$ 4,105	\$ 3,696
	Number of retirees	29	33	38	33	37	17	188
2016	Average monthly benefit	\$ 782	\$ 1,167	\$ 1,829	\$ 2,161	\$ 2,773	\$ 4,232	\$ 1,925
	Average monthly salary	\$ 3,760	\$ 3,303	\$ 3,869	\$ 3,701	\$ 3,801	\$ 4,674	\$ 3,921
	Number of retirees	29	30	31	34	30	11	165
2015	Average monthly benefit	\$ 784	\$ 1,211	\$ 1,795	\$ 2,373	\$ 2,780	\$ 3,920	\$ 1,910
	Average monthly salary	\$ 3,582	\$ 3,662	\$ 3,845	\$ 4,061	\$ 3,796	\$ 4,363	\$ 3,797
	Number of retirees	26	36	30	33	19	13	157
2014	Average monthly benefit	\$ 803	\$ 1,346	\$ 1,423	\$ 1,993	\$ 2,697	\$ 3,399	\$ 1,786
	Average monthly salary	\$ 3,766	\$ 3,877	\$ 3,136	\$ 3,539	\$ 3,678	\$ 3,688	\$ 3,624
	Number of retirees	23	32	22	30	21	12	140

*Note: This schedule is presented to illustrate the requirement to show 10 years of information. However, until a full 10-year trend is compiled, years for which the information is available will be presented.*

## CITY OF EL PASO EMPLOYEES RETIREMENT TRUST

ACCT #	DESCRIPTION	FY2018 ADOPTED BUDGET
501000	Salaries & Wages	535,836
501002	Overtime Pay	1,671
501010	Shift Differential	0
501020	Equipment Allowance	3,800
<b>TOTAL SALARIES &amp; WAGES</b>		<b>541,307</b>
501100	Worker's Compensation	1,500
501101	Unemployment Compensation	1,444
501108	Pretax Fund Health Employee	32,672
501114	Life Insurance	673
501117	Car Allowance	4,800
501118	Insurance & Ancillary Benefits	17,679
501120	Other Employee Benefits (Def Comp)	11,409
501124	Fund Pension Plan Contribution	75,520
501129	FICA Fund Match	30,589
501130	FICA Med - Fund Match	7,770
<b>TOTAL EMPLOYEE BENEFITS</b>		<b>184,056</b>
521120	Health Care Providers Services	1,000
521130	Interpreter Services	500
521520	Investigative Services	750
<b>TOTAL PROFESSIONAL SERVICES</b>		<b>2,250</b>
522020	Data Process Service Contracts	40,000
522060	Maint. Services Contract - Janitorial	8,000
522090	Printing Services Contracts	9,900
522120	Security and Access Control Contracts	600
522150	Outside Contracts - NOC	12,000
522200	Pest Control Contracts	1,000
522210	Groundkeeping Horticulture Contracts	3,500
522260	Building/Facility Maintenance Contracts	500
522290	Office Equipment Maint. Contracts	950
<b>TOTAL OUTSIDE CONTRACTS</b>		<b>76,450</b>
523020	Print Shop Alloc-Interfund Services	150
523040	Mail Room Charges	21,000
<b>TOTAL INTERFUND SERVICES</b>		<b>21,150</b>
524000	Buildings - Lease	10,696
524130	Copier Contract Services	8,250
<b>TOTAL BUILDING LEASES</b>		<b>18,946</b>
531000	Office Supplies	10,500
531010	Equipment Purchase Under \$500	500
531030	Publications & Subscriptions	100
531040	Computer Equip Supp & Maint	2,200
531110	Cleaning Supplies	500
531140	Building Maintenance Supplies	500
<b>TOTAL MATERIALS &amp; SUPPLIES</b>		<b>14,300</b>

## CITY OF EL PASO EMPLOYEES RETIREMENT TRUST

ACCT #	DESCRIPTION	FY2018 ADOPTED BUDGET
533020	Data Processing Equipment 500-4999.99	900
	<b>TOTAL MINOR EQUIPMENT &amp; FURNITURE</b>	<b>900</b>
540000	Phone	300
540010	Long Distance	100
540020	Wireless Communication Service (internet & cable)	2,000
540030	Postage	600
	<b>TOTAL COMMUNICATIONS</b>	<b>3,000</b>
541000	Electricity	5,000
541010	Water, Sewer & Trash	3,500
541020	Natural Gas	1,500
	<b>TOTAL UTILITIES</b>	<b>10,000</b>
542010	Fiduciary & Investment Education Expense	6,000
542020	Trustee Fiduciary & Investment Ed Expense	15,000
542030	Mileage Allowance	300
	<b>TOTAL TRAVEL</b>	<b>21,300</b>
544020	General Liability Insurance Expense	0
544060	Other Services/Charges Expense	4,000
544120	Seminars/Continuing Education Exp	650
544140	Prof Licenses & Memberships Exp	5,500
544240	Tuition Reimbursement	4,000
	<b>TOTAL OPERATING EXPENDITURES</b>	<b>14,150</b>
580080	Major Office Equipment & Appliances	500
580090	Furniture & Fixtures	125,000
	<b>CAPITAL EXPENDITURES</b>	<b>125,500</b>
	<b>TOTAL FUND EXPENDITURES</b>	<b>1,033,308</b>