

**Minutes of the
Regular Meeting of the
Board of Trustees of the
Fire and Police Pension Fund, San Antonio
11603 W. Coker Loop, Suite 201
San Antonio, Texas
March 28, 2018**

PRESENT: Chairman J. T. Trevino, Fire Representative; Vice Chairman Jim Smith, Police Representative; Mayoral Designee W. Reed Williams; Councilman Clayton Perry; Councilman William "Cruz" Shaw; Jimmy Foster, Police Representative; Dean Pearson, Fire Representative; Larry Reed, Fire Retiree Representative; Harry Griffin, Police Retiree Representative.

ABSENT: None.

**OTHERS
PRESENT:**

Warren Schott; Mark Gremmer, Matt O'Reilly, Gail Jensen, Beatrice Ahrens, Rick Matye, Pension Fund Staff, and Frank Burney, Martin & Drought.

At 9:03 a.m., Chairman Trevino called the meeting to order. Roll was called, and a quorum was declared present.

At this time, the Board presented plaques to the following 2017 fire retirees: Ernest Aleman; Rene Arriola; Jesse Cantu, Jr.; Anthony Guerrero; Edward Zuniga; Jaime Reyes; Eric Ernst; John Greiner; Elizabeth Greiner (2017 police retiree); James W. Kitchens; Dwayne Toler; Rafael J. Torres; Georgia Rakowitz; Armando Perez; and Lawrence C. Trevino.

The Board congratulated each of the retirees and thanked them for their dedicated service.

The Board then recessed to Executive Session at 9:27 a.m., pursuant to Texas Govt. Code §551.071, and reconvened at 11:20 a.m.

MINUTES: Mr. Pearson moved to approve the minutes of the regular meeting held February 28, 2018. The motion was seconded by Vice Chairman Smith, and it carried unanimously.

EDUCATIONAL

OPPORTUNITIES: Vice Chairman Smith moved to authorize Board members and appropriate staff to attend the following conferences:

1. Exeter Annual Meeting
May 2-3, 2018
2. Westech Annual Meeting
May 3-4, 2018
3. GFOA Annual Conference
May 6-9, 2018

4. Kayne Anderson Annual Meeting
May 8-9, 2018
5. Covenant Annual Meeting
May 10-11, 2018
6. NCPERS Annual Conference
May 13-16, 2018
7. NEPC Client Conference
May 14-15, 2018
8. IFEBP Annual Employee Benefits Conference
October 14-17, 2018

The motion was seconded by Mr. Pearson, and it carried unanimously.

**APPLICATIONS,
ADJUSTMENTS
AND REFUND OF
CONTRIBUTIONS:**

Mr. Reed made a motion to approve the following pension applications:

Pension Applications

1. A 29 year, 5 month service pension for Detective Investigator Robert D. Moffitt, effective March 2, 2018.
2. A 30 year service pension for Detective Investigator John R. Dyer, Jr., effective April 1, 2018.
3. A 28 year, 5 month service pension for Police Sergeant Encarnacion Y. Guzman, effective April 1, 2018.
4. A 27 year, 5 month service pension for Detective Investigator Jeffrey C. Hastings, effective April 1, 2018.
5. A 32 year, 2 month service pension for Police Sergeant Edward C. Klauer, effective April 1, 2018.
6. A 32 year, 6 month service pension for Police Officer Ramon A. Moreno, effective April 1, 2018.
7. A 40 year, 5 month service pension for Police Sergeant Orlando Navarro, effective April 1, 2018.
8. A 32 year, 2 month service pension for Fire Engineer Raymond A. Perez, effective April 1, 2018.
9. A 31 year, 6 month service pension for Police Officer Richard F. Sanchez, effective April 1, 2018.
10. A 27 year, 5 month service pension for Police Officer Bryan S. Griffin, effective April 13, 2018.

Beneficiary Pensions

1. A beneficiary pension for Mrs. Elaine K. Munoz, widow of Retired Police Lieutenant John Munoz, effective February 22, 2018.

Refund of Contributions

1. A 7 year, 11 month refund of contributions for Police Officer James W. Dielmann, effective February 19, 2018.
2. A 2 year, 7 month refund of contributions for Firefighter Jason C. Hastings, effective March 9, 2018.

The motion was seconded by Mr. Foster, and it carried unanimously.

**EXECUTIVE
DIRECTOR
REPORT:****STAFF ACCOUNTANT POSITION UPDATE**

Mr. Schott introduced Carmen Martinez who is the new Staff Accountant for the Pension Fund. She began working on March 19th. The Board welcomed her and she thanked the Board for the opportunity.

RESCHEDULE MAY BOARD MEETING

Mr. Schott informed the Board that the Councilmembers on the Board would not be able to attend the May board meeting due to another commitment. After some discussion, Mr. Griffin made a motion to reschedule the May board meeting to Friday, May 25th at 9:00 a.m. The motion was seconded by Mr. Foster, and it carried unanimously.

13TH CHECK UPDATE

Mr. Schott informed the Board that the updated investment return for 2017 is 14.4%. There will be a Special Board meeting on April 12th at 9:00 a.m. to discuss whether or not the Board will have the authority to issue a 13th check.

FINANCIAL DISCLOSURE FORMS

Mr. Schott reminded the Board that Financial Disclosure Forms for reporting period 2017, are due March 31, 2018.

FIRE CADET CLASS 2017-B – GRADUATION MARCH 9, 2018

Mr. Schott requested Board's approval to accept Fire Cadet Class 2017-B into the membership. Mr. Pearson made a motion to approve. The motion was seconded by Mr. Foster, and it carried unanimously.

POLICE CADET CLASS 2017-C – GRADUATION MARCH 16, 2018

Mr. Schott requested Board's approval to accept Police Cadet Class 2017-C into the membership. Vice Chairman Smith made a motion to approve. The motion was seconded by Mr. Reed, and it carried unanimously.

FINANCIAL REPORT FOR PERIOD ENDING DECEMBER 31, 2017

Mr. Gremmer reported that the Statement of Net Plan Assets for the period ending January 31, 2018 were \$3,266,993,793.71.

**COMMITTEE
REPORTS:****PERSONNEL/AUDIT COMMITTEE**

Mr. Griffin reported the Personnel/Audit Committee did not meet this month, however the plan is still to receive the Annual Audit and Actuarial Valuation Report at the Committee Meeting on June 26th and forward to the Board for action at the Board Meeting on June 27th.

DISABILITY COMMITTEE

No report.

LEGISLATIVE COMMITTEE

Vice Chairman Smith reported that the Legislative Committee met last week to continue discussions on the 2019 Legislative Session. Mr. Schott began the meeting by presenting a recommendation by the Fund's actuary to change our actuarial asset smoothing method. Our current method smooths the gains and losses over a 5-year period but it will never get the actuarial value equal to the market value. Our actuary has noted that our current method is acceptable but not common and so is recommending we change to a 5-year fixed smoothing method with a 20% corridor. The Committee provided the Board a recommendation letter from the Fund's actuary. Vice Chairman Smith stated if the Fund makes the change to this more accepted Smoothing Method, there will be a very minimal impact on the Fund's funding level because the Fund's current market value and actuarial value are already within 1% of each other. After a short discussion, the Committee recommended the Board change to a 5-year fixed smoothing method with a 20% corridor effective with the 2018 actuarial valuation.

Vice Chairman Smith then made a motion on behalf of the Committee to approve. The motion was seconded by Mr. Reed, and it carried unanimously.

The rest of the meeting was spent reviewing proposed language changes that need to be done either for clarification purposes or to comply with IRS code. None of these changes have a cost associated with them, so they are not in conflict with the Fund's funding policy. This was the second meeting to review the language changes, so most of the items have already been agreed on. The Committee hopes to finalize and approve the language at the next meeting in April. Once approved by the Committee, it will bring the recommendation to the Board for approval and will then begin meeting with

the Associations and the City Staff to review the changes. The Committee's plan is to get the Associations to approve the changes in the Summer and then get the City Council to approve in the Fall. The Committee will then pre-file the Bill in November or December.

INVESTMENT COMMITTEE

Mr. Reed stated the Investment Committee held a meeting on Wednesday, March 21, 2018.

The first item on the agenda was a review of the fourth quarter of 2017. A representative from NEPC presented the Pension Fund's performance numbers. For the 2017 calendar year, the Fund returned 14.1%. For the past five years, on an annualized basis, the Fund has returned 8.24%, with a standard deviation of 5.04%, which ranks 17th best in the Fund's peer set.

The next item on the agenda was a discussion regarding potential projects discussed during the annual strategic study. After staff presented several options, the Investment Committee discussed starting a search for a fixed income manager.

Mr. Reed stated the Committee did not have a recommendation, however he made a motion to start a fixed income search. The motion was seconded by Vice Chairman Smith, and it carried unanimously.

The next item on the agenda was a discussion on rebalancing one of the Fund's equity managers. After a year in which Acadian Emerging Markets Equity Fund returned 37.2%, the Investment Committee recommends redeeming \$30 million from Acadian to rebalance our international equity portfolio closer to target and raise cash for capital calls.

Mr. Reed then made a motion on behalf of the Committee to approve. The motion was seconded by Mr. Foster, and it carried unanimously.

The next item on the agenda was an update on the ongoing global macro hedge fund search. Staff presented its analysis of eight hedge funds highly ranked by Albourne. After discussions, the Investment Committee recommends on-site visits with Alphadyne Asset Management, Alpstone Capital, H2O Asset Management, and Rokos Capital Management.

The next item on the agenda was a discussion on the share class options of the Fund's investment with Carlson Capital. Under the current terms of share class E, the Fund pays a 1.5% management fee and a 20% performance fee. Under the terms of share class Z, the Fund would pay either a 1% management fee or a 30% performance fee if Carlson hits its hurdle over its benchmark. Staff presented an analysis by Albourne showing that in most market environments, the new share class would be cheaper to the Fund. The Investment Committee recommends switching from share class E to share class Z in Carlson Capital Double Black Diamond.

Mr. Reed then made a motion on behalf of the Committee to approve. The motion was seconded by Mr. Pearson, and it carried unanimously.

The next item on the agenda was a discussion on a re-up opportunity in the private debt space. Levine Leichtman is raising its sixth flagship fund, Levine Leichtman Capital Partners VI. The Pension Fund has previously invested in funds III, IV, and V. While performance across the three funds has been good, the manager has been investing more of its capital in equity positions rather than debt. As a result, the Investment Committee did not recommend the re-up.

The next item on the agenda was a discussion on a re-up opportunity in the private equity space. Exponent is raising its fourth fund, Exponent Private Equity Partners IV. The Pension Fund previously invested in fund III, which has generated an IRR of 13.6%. Exponent focuses on private equity buyouts in UK-based companies. The firm is looking to raise £1.4 billion. The Investment Committee recommends committing £15 million to Exponent Private Equity Partners IV.

Mr. Reed then made a motion on behalf of the Committee to approve. The motion was seconded by Mr. Foster, and it carried unanimously.

The final item on the agenda was a discussion on data service providers. Currently, staff has been utilizing Cobalt to research performance verification, funds in the market, and other features necessary for due diligence. With the contract with Cobalt set to end soon, staff looked at other providers to get a sense of what was available. Ultimately, staff recommended going with Bloomberg. The Investment Committee recommends letting the contract expire with Cobalt and hiring Bloomberg for its data services.

Mr. Reed then made a motion on behalf of the Committee to approve. The motion was seconded by Mayoral Designee Reed, and it carried unanimously.

SAN ANTONIO F&P PROPERTY HOLDING CORPORATION

President Foster reported the Board of Directors of the Property Holding Corporation met last week to discuss several items.

The first issue discussed was the possibility of developing a retirement community for First Responders. The idea is to develop a property that provides for different stages of retirement life from independent living to assisted living to nursing home to hospice care. We are in the very preliminary stages of fact-finding on this issue but will keep you posted if the research supports this as a good long-term investment.

The Board reviewed two options regarding our expected office expansion. After discussing both options with the space planner, the Board voted to approve the layout that added 3,200 square feet. This option will add 3 new offices, a file room, a new copy room and a 1,000 square foot break room. This option also includes 250 square feet of unfinished space for future expansion. The Board directed its property manager to get pricing on the costs of this expansion and a timeline for the project. The current tenant's lease does not expire until July 31st, so no work will begin before that time.

Next, the Board approved the appraisals for our three office buildings. Parkway Center's appraisal was unchanged at \$12.5 million, Shavano III was appraised at \$11.4 million and Shavano IV was appraised at \$7.4 million. These were the first appraisals of the Shavano Properties since their purchase.

Lastly, Sullivan Commercial gave an update on the leasing activity of the three buildings. Parkway Center and Shavano IV are 100% leased and Shavano III is 98% leased with only 2,700 square feet available. However, it was noted that Parkway Center has one large tenant that is vacating later this Fall and another large tenant is considering moving out. Sullivan is working with them and will keep us posted.

DISBURSEMENTS: Vice Chairman Smith made and Mr. Reed seconded a motion to approve paying the bills, which was unanimously approved. (See attached disbursements dated March 28, 2018).

**MEMBERS TO
BE HEARD:** None.

ADJOURNMENT: Secretary Williams made a motion to adjourn the meeting at 11:57 a.m. The motion was seconded by Mr. Pearson, and it carried unanimously.

**APPROVED BY THE BOARD OF TRUSTEES AT THE REGULAR
MEETING HELD ON APRIL 25, 2018.**

Jim Smith, Vice Chairman

ATTEST:

W. Reed Williams, Secretary