TUCSON SUPPLEMENTAL RETIREMENT SYSTEM
BOARD OF TRUSTEES MEETING MINUTES

DATE: **Thursday, December 17th, 2015**
TIME: **8:30 a.m.**
PLACE: **Finance Department Conference Room, 5th floor**
City Hall, 255 West Alameda
Tucson, Arizona 85701

Members Present:
Robert Fleming, Chairman
Kevin Larson, City Manager Appointee (arrived 8:44 AM)
Rebecca Hill, Interim HR Director
Silvia Amparano, Director of Finance
Michael Coffey, Elected Representative (arrived 8:41 AM)
Jorge Hernández, Elected Representative
John O'Hare, Elected Retiree Representative

Staff Present:
Dave Deibel, Deputy City Attorney
Silvia Navarro, Treasury Administrator
Art Cuaron, Treasury Finance Manager
Dennis Woodrich, Lead Pension Analyst (arrived 8:36 AM)
Dawn Davis, Administrative Assistant

Guests Present: Claire Beaubien, CTRA Representative

Absent/Excused: None

Chairman Fleming called the meeting to order at 8:32 AM.

A. **Consent Agenda**
1. Approval of October 30th Board Meeting Minutes
2. Approval of November 19th Board Meeting Minutes
3. Retirement Ratifications for December 2015
4. November 2015 TSRS expenses and revenue compared to budget

The Consent Agenda was approved by a vote of 4 – 0 (Chairman Fleming did not vote, Kevin Larson and Michael Coffey absent/excused).

B. **Administrative Discussions**
1. City Manager Proposed Retirement Incentive

Silvia Amparano explained this was part of the fiscal year 2017 (FY17) budget process. The City was going to have another difficult year, mainly because expenditures grew faster than revenues. The largest anticipated increase was $25M for PSPRS. The City Manager has started talking to Mayor and Council, and considering options for downsizing the organization. The FY17 deficit is estimated to be $40M at this time, and the departments' non-personnel budgets have already lost all flexibility so the City is trying to decrease the number of employees. The City Manager proposed a retirement incentive for those employees eligible to retire. The incentive is 3 months of base pay if they retire before 2/5/16. Mayor and Council gave direction to proceed with the incentive on 12/15/15 and a memo was sent out to all City employees advising them of the incentive, and the qualifications to be eligible for it. TSRS staff would be holding open houses for one hour on 12/18/15 and

12/21/15, for those who are eligible and want more information. They will be able to make appointments and request consultations. There were around 440 employees currently eligible to retire, 200 of them are in the general fund. The plan is to move employees from the general fund into positions outside of it, and leave the positions in the general fund vacant. A hiring freeze is anticipated to last at least 4 years. The incentive provides an opportunity for employees already considering retirement to move a little faster than they would have otherwise. It would be nice to run an analysis of the cost of the incentive to the plan, but a little premature without knowing how many people will retire. Council Member Romero asked how this would impact the plan since contributing members would not be replaced. The Board would also need to determine and consider what this would mean for the plan.

Chairman Fleming said assuming the plan was fully funded; it should not have a direct affect. The affect would be actuarial assumptions, and fewer contributing members for the 20 year closed amortization. There would be more members in tier I to retire which could have the salutary effect of shifting the curve a little.

Ms. Amparano answered if the higher paid employees leave it should offset the negative impact.

Chairman Fleming asked if it was possible to get an actuary report quickly if they assume 50 people take advantage of the incentive, and 70% of them are tier I.

Ms. Amparano answered yes the actuary probably could produce a report pretty quickly if they asked her to use FY15 as a base for payroll numbers.

Chairman Fleming explained the results would not be accurate but it would give them an idea of the affect the incentive would have on the plan.

Ms. Amparano advised they would have information for the Board at the meeting scheduled on 1/28/16. It would be a preliminary report that does not have a lot of information, and after they knew how many people would take advantage of the retirement incentive a more in-depth report would be provided.

Dave Deibel stated it would be interesting to see how many people come to the informational sessions held by TSRS staff because that could give them an idea of how many people would take the incentive.

Chairman Fleming asked when the sessions were.

Silvia Navarro answered they were at 1:30 PM on Friday 12/18/15 and 9:00 AM on Monday 12/21/15. The same information would be provided at both meetings.

Mr. Deibel stated there were 16 people eligible to retire in the City Attorney's Office and only one of them said they were thinking about it.

Chairman Fleming answered the retirement incentive would probably have a less profound effect than the City Manager's Office anticipates.

Mr. Deibel said he agreed because people have not been considering taking the retirement incentive because it was too short of a time for them to get their finances in order.

Rebecca Hill advised HR estimates that 20-30 people would take advantage of the retirement incentive.

Chairman Fleming stated the impact would be pretty minimal to the fund, so maybe it was not worth the effort to get an actuarial report for the Board, but if it has to be done anyway the Board would like to see it.

Ms. Amparano answered this was just the first step in balancing the budget. The hope is to avoid layoffs by encouraging eligible employees to retire. The City Manager held a retreat with Mayor and Council last week and advised that every day they do not take action on the budget it costs $76K which makes it harder to balance the budget in the future. The other item management has been asked to look at is releasing

employees, who do not have civil service protection under their probationary period in order to protect the employees who had civil service protection.

Michael Coffey asked if this would apply to the new Pension Administrator.

Ms. Amparano answered there was currently a City wide hiring freeze on external recruitments. The City Manager has been asked to make an exception for the Pension Administrator position because they were already so far along in the hiring process. There were 37 applicants, 12 met the minimum qualifications, and it was determined the 3 applicants on the interview list with the lowest scores should not be considered. They are still proceeding until directed otherwise. Ron Lewis, the Assistant City Manager over finance announced that he will be retiring and taking advantage of the incentive; he was the one giving direction on the hiring of a Pension Administrator. Now direction will have to come from the City Manager. There is one internal candidate who is an option if they do not receive approval to hire an external candidate. The oral boards will be scheduled for the beginning of January 2016.

Ms. Navarro stated the oral boards would begin on 1/6/16 and would continue for a few days.

Mr. Coffey asked about the specifics regarding the layoff of probationary employees.

Ms. Hill explained it would be strategic, so it is up to each department director to identify individuals whose performance has not been exceptional, as well as positions that are not critical to the mission.

Mr. Coffey asked how this would impact an applicant's inclination to accept the Pension Administrator position.

Ms. Amparano answered they would have to consider whether they wanted to take a City job during a financial crisis, especially when many new hires have been let go.

Mr. Coffey asked whether the City hires for positions not critical to the mission, and if people with less than stellar performance were passing probation.

Ms. Hill explained department directors have been asked to look at which services are absolutely necessary given the current financial constraints and identify services for potential elimination.

Mr. Coffey asked if the Pension Administrator provided a necessary service that would not be eliminated.

Ms. Amparano answered the position was mandated in the City Code. Whether the new Pension Administrator is hired from inside or outside the City was subject to change.

Mr. O'Hare asked if there was a possibility of hiring someone from outside the City on a consultant type basis to avoid the civil service system.

Ms. Amparano answered the position was not at risk like the general fund positions because the salary comes out of the trust, so they could advise applicants the current risk was to positions funded by the general fund.

Mr. O'Hare asked if someone was planning on leaving at the first of the year would they still receive the retirement incentive.

Ms. Amparano answered yes, anyone leaving between 12/16/15 and 2/5/16 would receive the incentive.

Mr. O'Hare asked if the incentive payout was funded by the general fund.

Ms. Amparano answered the incentive money would come from the fund the retiree's position is under, so if a Tucson Water employee retired Tucson Water would pay the incentive. The incentive is not eligible to be rolled over into members 457 accounts; this is something they will have to inform potential retirees of because the incentive will be taxed like a payout.

2. Mayor and Council Presentation Regarding Code Revisions

Silvia Amparano stated she spoke to Mayor and Council on 12/8/15 and asked them to approve all of the Board's amendments to the Code, except the funding policy. They did approve all the Code changes. She will be going back to Mayor and Council to approve contribution rates and discuss whether they want to codify the funding policy. Everything else needed for the IRS determination letter was approved and Catherine Langford was working on that submission.

Michael Coffey asked when she planned to return to Mayor and Council with the funding policy.

Ms. Amparano answered probably late January or early February 2016, it would be a part of the budget discussions. The City Manager recommended a 27.5% contribution rate for FY17, as recommended by the TSRS Board, during his proposal for the retirement incentive.

3. PIMCO Fee Structure

Silvia Navarro presented the proposed PIMCO fee structure of 0.50% on the first $100M, 0.45% on the next $100M, and 0.40% thereafter. At the 10/30/15 Board meeting Sasha Talcott, from at PIMCO, advised that they were willing to negotiate an alternative fee schedule or agreement.

John O'Hare stated his understanding of what was said at the Board meeting held on 10/30/15 was that the Board was currently charged according to the fee schedule described.

Ms. Navarro answered TSRS has a fixed rate, and Ms. Talcott meant that PIMCO was willing to negotiate a new fee structure based on earnings. Callan advises against a fee structure based on performance because the Board could end up paying much more when the manager outperforms and because the fee would be unknown.

Mr. O'Hare expressed interest in paying 90% of their fee if they underperform, and if they outperform the benchmark by a certain number of points paying them 110% of their fee.

Ms. Navarro answered this was something staff could negotiate if the Board would like.

Mr. O'Hare asked if any other Board members would be interested in this.

Michael Coffey stated they needed to know the fee structures of their other investment managers before he could answer that question.

Chairman Fleming answered none of the other managers fees were performance based.

Mr. O'Hare asked if the real estate managers had performance based fees.

Art Cuaron said staff could research that for the Board.

The Board requested information on the fee structures of all the Investment Managers they employ.

C. **Investment Activity Report**

1. TSRS Portfolio Composition, Transactions and Performance Review for 11/30/15

Art Cuaron said the month of November ended with a Fund balance of about $723M; which is about a $3.5M increase over the balance as of 10/31/15, a significant portion of that increase resulted from infrastructure. Today the fund is down to $714M, almost a $9M drop, primarily in equities and bonds. The Fed raised interest rates yesterday.

Calendar YTD – As of 11/30/15 the Total Fund returned 1.49% which is a 51 basis point increase over the return of 0.98% on 10/31/15, but still underperforming compared to the Custom Plan Index return of 2.23%. Total Fixed returned 0.82%, which is down 43 basis points compared to the return of 1.25% on 10/31/15, but close to the Barclays Aggregate return of 0.89%. Total Equities returned -0.25% which is a 15 basis point increase over the return of -0.4% as of 10/31/15, but still trailing the Equity Composite return of 1.39%. Total Real Estate returned 13.68% which is an increase over the 10/31/15 return of 12.44%, and outperformed the NCREIF return of 11.29% (as of 9/30/15). Total Infrastructure returned 6.08%, which is an increase over the -0.1% as of 10/31/15, and outperformed the CPI +4 return of 4.77%.

Fiscal YTD – As of 11/30/15 the Total Fund returned -1.36%, a 49 basis point increase over the 10/31/15, but trails the Custom Plan Index return of -0.13%. Total Fixed returned 0.05%, which is a 43 basis point decrease from the 10/31/15 return, and trails the Barclays Aggregate return of 1%. Total Equities returned -3.42%, a 14 basis point increase over the 10/31/15 return, and trailing the Equity Composite return of -1.24%. Total Real Estate returned 4.81%, an increase of 1.14% over the return as of 10/31/15, and outperforming the NCREIF return of 3.68% (as of 9/30/15). Total Infrastructure returned 6.60%, an increase of 6.22% over the return as of 10/31/15, and outperforming the CPI +4 return of 1.10%.

One Year to Date – As of 11/30/15 the Total Fund returned 0.11%, a decrease of 1.66% from the return as of 10/31/15, and trailing the Custom Plan Index return of 1.77%. Total Fixed returned -0.75%, down 1.59% from the return as of 10/31/15, and trailing the Barclays Aggregate return of 1.08%. Total Equities returned -1.82%, down 2.48% from the return as of 10/31/15, and trailing the Equity Composite return of -0.13%. Total Real Estate returned 16.24%, is up 1.81% from the return as of 10/31/15, and underperformed the NCREIF return of 18.66% (as of 9/30/15). Total Infrastructure returned 2.75%, an increase of 2.02% from the return as of 10/31/15, and trailing the CPI +4 index return of 4.27%.

John O'Hare stated that according to the one year to date numbers T. Rowe Price was underperforming by 400 basis points over a 12 month period, and Champlain, who the Board tends to beat up, was outperforming the index by 200 basis points.

Mr. Cuaron explained about $5M had been taken from T. Rowe Price to fund pension obligations in September which may have impacted the numbers.

Mr. O'Hare stated there should be a way to report the returns where money withdrawn did not show as a loss in the returns.

Silvia Navarro stated staff could indicate which manager they took money from and address that manager individually when going over the investment reports.

Michael Coffey asked why this would affect the returns.

Ms. Navarro answered it would be the ending balance vs. the total allocations. Usually they take money from a manager that is over the target.

Mr. Cuaron stated when they request money to cover pension obligations they consult with Callan and take the eventual rebalance authorized by the Board into account. So if a manager is overweight and they will have money added in the rebalance staff will not necessarily request money from them.

Mr. Coffey stated the way staff reported on this seemed to be the problem as it was imprecise.

Chairman Fleming asked if staff took 5% from T. Rowe Price would it show as a 5% loss.

Mr. Cuaron answered he would research it and advise at the next meeting, but at the end of the day they are reporting on the ending balances.

Ms. Navarro stated staff could advise what the return would be if money was not withdrawn as well as what the current numbers were.

Kevin Larson asked if these numbers were calculated by staff or if they were provided.

Ms. Navarro answered they were provided by BNY Mellon.

Mr. Larson stated they probably gave a time weighted return, not looking at the swings and balances because that was the standard.

Ms. Navarro stated what was taken from the custodian was ending balances of last month and ending balances of the current month. Usually they are able to reconcile the money withdrawn to the manager it is withdrawn from.

Mr. Cuaron stated that client earnings were $33M as of 11/30/15. The cash transfer in November was from Black Rock in the amount of $5M for pension obligations.

D. **Articles for Board Member Education / Discussion**

1. Countdown to a Better DC Plan

E. **Call to Audience**

John O'Hare commended Silvia Amparano for her presentation at the Mayor and Council Meeting of 12/15/15, and advised the annual OPAL Public Funds Conference would be in Phoenix from 1/13/16 through 1/15/16.

Dennis Woodrich gave an update on the status of the disability retirement recipients who had their benefit payments stopped according to the Board action taken on agenda item 4a at the meeting held on 10/30/15. One of the recipients had moved and his mail was not forwarded. He came into the office before his benefit was shut off and completed an audit form. The other recipient did not receive a November payment, and his attorney contacted the office and got the affidavit to the TSRS office because the member was in Panama.

F. **Future Agenda Items**

1. January 28, 2016 meeting – Update on Pension Administrator Recruitment

G. **Adjournment** 9:12 AM

Approved:

Robert Fleming Chairman of the Board	2/25/16 Date	Silvia Navarro Treasury Administrator	2/25/16 Date