TUCSON SUPPLEMENTAL RETIREMENT SYSTEM
BOARD OF TRUSTEES MEETING MINUTES

DATE: **Thursday, January 28th, 2016**
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 8:38 AM)
Silvia Amparano, Director of Finance
Michael Coffey, Elected Representative
Jorge Hernández, Elected Representative
John O'Hare, Elected Retiree Representative

Staff Present: Joyce Garland, Assistant City Manager
Dave Deibel, Deputy City Attorney
Silvia Navarro, Treasury Administrator
Art Cuaron, Treasury Finance Manager
Dawn Davis, Administrative Assistant

Guests Present: Claire Beaubien, CTRA Representative

Absent/Excused: Rebecca Hill, Interim HR Director

Chairman Fleming called the meeting to order at 8:33 AM.

A. **Consent Agenda**
1. Approval of December 17th Board Meeting Minutes
2. Retirement Ratifications for January 2016
3. December 2015 TSRS Budget Vs Actual Expenses

Chairman Fleming asked for a vote on the Consent Agenda. **The Consent Agenda was approved by a vote of 4 – 0 (Chairman Fleming did not vote, Kevin Larson absent/excused).**

B. **Administrative Discussions**
1. Additional Retirement Incentive and Impact to TSRS

Silvia Amparano said the City Manager's Office received feedback stating employees were not taking advantage of the 520 hour payout retirement incentive due to the cost of health insurance. The City Manager decided to offer another retirement incentive, with a deadline of 06/10/16, providing employees the option to receive a monthly subsidy, based on their current health insurance selection, for 3 years if they opt out of the City's health insurance plan. Employees retiring by 02/06/16 would be eligible to receive both incentives. As of 01/27/16, 87 employees had retired and 19 or 20 more appointments were scheduled through 02/05/16. It was unknown how many people would take advantage of the incentive to opt out of City health insurance plan once the 02/06/16 deadline had passed for the 520 hour payout incentive.

Dave Deibel asked if 87 people were retiring in addition to the people who retired before the second incentive was approved.

Ms. Amparano answered 87 people had signed paperwork to retire by the 02/06/16 deadline. The actuary assumes that 133 people would normally retire each fiscal year. The number of retirees above the assumed 133 is what would make the difference in the actuary report on the impact of the retirement incentive to TSRS. As a result they cannot consider 100 people to have taken advantage of the retirement incentive because an unknown percentage of those people would have retired without the incentive. There were employees who had already signed their retirement paperwork in December who became eligible for the 520 hour payout retirement incentive when it was passed by Mayor and Council, so they received the incentive but would have retired without it. It is difficult to determine which retirees were seriously considering retirement before the incentive was made available to them vs. the retirees who were not considering it at all before the incentive.

Chairman Fleming asked if 100 extra people took advantage of the incentive would it save the City around $4M.

Ms. Amparano answered the assumption was the vacated positions would not be filled, but not all of the 100 vacant positions are funded from the general fund, so the assumption is also the positions funded from enterprise funds and special revenue funds would be filled with employees moving out of general fund positions when possible. In the previous year approximately $4M was saved in payroll and benefit costs due to the positions left unstaffed, around 80, after employee retirements.

Chairman Fleming understood it was hard to determine exact numbers at this point in time, but they could anticipate about $4M in payroll savings and a $4M increase in the unfunded liability of the TSRS fund.

Ms. Amparano answered better numbers would be requested from the actuary once they were more firm and those numbers would be provided to the Board and the City Manager's Office.

2. Retirement of TSRS Employee

Silvia Navarro announced Dennis Woodrich, Lead Pension Analyst, had decided to take the retirement incentive and would be retiring on 02/06/2016. Bob Szelewski, Management Analyst, was promoted into the Lead Pension Analyst position; and Dawn Davis, Administrative Assistant, was promoted to the Management Analyst position. Now the vacant position is that of the Administrative Assistant.

3. Update on Pension Administrator Recruitment

Silvia Amparano advised the hiring interviews had just been completed and there would be an informal session (meet and greet) for the Board to meet the 3 final candidates after the Board meeting; they would be provided a form on which they could rank the candidates and provide feedback to be taken into consideration when the final decision was made.

Michael Coffey asked if there had been 2 rounds of interviews.

Ms. Amparano answered there were oral boards and then hiring interviews.

Mr. Coffey asked how many candidates went through the oral board interviews.

Ms. Amparano explained 7 candidates participated in oral board interviews and 3 candidates participated in hiring interviews.

Mr. Coffey asked what role the meet and greet would have in the selection process.

Chairman Fleming stated because the meet and greet did not have a posted agenda the Board would not be able to have any discussion or take any legal action according to the Arizona Open Meeting Law, and asked Ms. Amparano to distribute the forms so the Board could review them.

Mr. Coffey clarified the purpose of the meet and greet was to provide the Finance Director with feedback on the final candidates.

Ms. Amparano confirmed this was correct.

Mr. Coffey asked what role the feedback would play in the final decision.

Ms. Amparano answered she would take the feedback into consideration when making the final decision, but the feedback would not have any effect on the candidates' rankings because they had already been ranked based on their performances in the oral board interview, practical exam, and the hiring interview.

Mr. Coffey expressed concern that the Board's feedback on the candidates would have no impact on the final decision.

Dave Deibel explained under civil service rules the hiring department is supposed to hire the candidate with the highest ranking. If the department wants to hire a candidate with a lower ranking they have to justify it in writing and the Board's feedback could be utilized as a part of the written justification if they liked a lower ranked candidate more.

Mr. Coffey asked if the final decision had already been made.

Ms. Amparano answered no.

Chairman Fleming explained, hypothetically, if the Board unanimously agreed that candidate with the 2nd highest ranking was the best candidate, Ms. Amparano could use that as part of the justification to hire the 2nd candidate if she agreed. But if the Board unanimously agreed they thought the 1st candidate was the best candidate the meet and greet would still have been a good and productive use of their time.

Mr. Coffey stated it was up to Ms. Amparano as to whether she would use the feedback provided by the Board in order to justify hiring a candidate other than the one with the highest ranking.

Ms. Amparano answered HR has a process used to rank applicants, they take different pieces to get that ranking including the application, practical exams, oral boards, hiring interviews, etc. HR then provides the hiring department with a certified hiring list on which the candidates are ranked based on those factors. According to the civil service rules the hiring department can hire the 1st candidate without any further process, or hiring interviews can be held before a decision is made. The Board expressed a desire to provide input in the hiring process and this was that opportunity.

Mr. Coffey expressed concern that the feedback could be disregarded completely because the decision was up to the Finance Director instead of the Board.

Ms. Amparano answered this was true.

Mr. O'Hare asked how the Board's feedback would be weighted in the making of the final decision.

Ms. Amparano answered everything would be taken into consideration. The oral boards provided information on their technical experience and the hiring interviews provided information on who would be the best fit for the position and the Finance Department as a whole. There was no set weight assigned to the Board's feedback because in the end it would be a judgment call about which candidate was the best fit for the Pension Administrator position and as a member of the Finance Department.

Mr. O'Hare thought the decision should be based on which candidate would be best for the Plan and its goals,

which would not always be the same as those of the City.

Ms. Amparano answered the Pension Administrator would still be a City employee. In the position of the Pension Administrator the employee would serve a purpose, which was not changing.

Mr. O'Hare asked how salary would play into the negotiations when the money comes from the pension fund, and expressed concern that the best candidate could be passed over in favor of a less qualified candidate willing to work for a lower salary.

Ms. Amparano explained salary negations begin when an offer is made to a candidate. It is the decision of the hiring authority as to how much the candidate should be paid. They are only authorized by the City to offer a midpoint salary without further approval from the City Manager's Office.

Mr. O'Hare expressed concern over their ability to keep a good Pension Administrator to manage the $1B fund with an uncompetitive salary.

Joyce Garland said it would be taken into consideration but at that time an offer had yet to be made, so was unknown what the individual candidates were seeking in terms of compensation.

Mr. O'Hare stated they needed the best candidate and to pay them market, whether it be midpoint or top of the range.

Mr. Coffey expressed concern over the timing of the Board's participation because he had understood the meet and greet would take place before the hiring interviews so that their feedback could be taken into consideration during those interviews. The fact that the meet and greet was taking place after the final interviews seemed to be an exercise in futility. He also expressed disappointment the meet and greet was not on the agenda.

Ms. Amarano explained the meet and greet was an informal meeting that was noticed but did not have an agenda. It was an opportunity for the Board to meet the candidates, and ask any questions they had.

Mr. Coffey was disappointed in the selection process, it was inappropriately handled, and he felt the Board should have had more involvement.

Mr. Deibel explained the process was handled according the civil service rules. Nothing inappropriate was done. A meet and greet could not be held before the final interviews as dictated by the civil service rules because people outside of the City could not participate in the ranking, which is done by HR.

Ms. Amparano stated the process as described to the Board at the 10/30/26 meeting was the process followed.

Mr. Coffey stated that was not his recollection.

Mr. Larson suggested it might be helpful to review the process. He participated in the oral boards, when they scored those interviews there was a natural break after the top 3 or 4 candidates. The Chairman participated in the hiring interviews so the Board has been involved, just not as a whole group. There was discussion, even during the oral board interviews, as to how the other Board members could be included in the process, which was difficult. It is important to go above midpoint if necessary to compensate the new Plan Administrator and appropriately attract them to City employment.

Mr. Coffey asked if there was no alternative but to use this process to include the Board under civil service rules.

Ms. Amparano answered there was no alternative.

Mr. Coffey apologized because he misunderstood what was allowed under civil service rules.

Mr. O'Hare asked if the Pension Administrator could be hired on a separate contract.

Ms. Amparano explained the Pension Administrator was a Finance Department position, the Finance Director is the hiring authority. She acknowledged the Board's concern over having input in the hiring process and the meet and greet was the opportunity for them to give that input to the Finance Director. They have the same goal which is to hire the best person for the job.

Mr. Coffey thought the meet and greet would occur before the final interviews which was why he was concerned. Holding the meet and greet after the final interviews felt fruitless.

Ms. Amparano clarified though the final interviews had been completed the final decision had not been made.

Mr. O'Hare repeated his concern over the ability to get the best candidate for the salary they could offer.

Ms. Amparano answered the Board would be advised if that became an issue, but at this point there was no reason to believe it would be an issue.

Mr. Coffey asked if they were using the salary range advertised.

Ms. Amparano answered yes.

Chairman Fleming understood the Board's anxiety was that the Pension Administrator would be working for the City as well as the TSRS Board of Supervisors. This was addressed by one of the questions in the final interview and he was looking for a realistic realization that there would be competing interests between the City and the Board and a good candidate would have to be able to navigate those differences. He did not have the impression that any of the people participating in the final interview were looking for the candidate that would only serve the City's interests and fail to be cognizant of the needs of the fund.

Mr. O'Hare stated he was not concerned that the meet and greet would be public record but he could understand if some of the other Board members were.

Ms. Amparano answered it was not public record.

Silvia Navarro explained it was a separate event, which was only posted because the Arizona Open Meeting Law requires posting when there will be a quorum present. There was no agenda and no opportunity for the Board to take legal action so it was not public record.

Mr. Larson asked if all 3 candidates would be there at the same time.

Ms. Navarro answered no, the first was scheduled for 9:45 AM, and they are scheduled 20 minutes apart.

Ms. Amparano explained the candidates would be asked to give an introduction, their experience, and why they believe they were the best person for the job, then the Board would be able to ask questions; it would be informal.

4. Discussion of Investment Manager Fee Structure

Art Cuaron stated a chart titled "TSRS Investment Manager Fee Schedules" had been included in the board packets. All of the TSRS managers and their fee schedules were included, and all had asset based fees. He recommended maintaining the asset based fee schedule and rejecting the offered performance based fee schedule with regards to PIMCO. Callan was also supportive of that position.

Michael Coffey asked if PIMCO was seeking to change their fee structure.

Mr. Cuaron explained at the 10/30/15 meeting PIMCO offered to change to a performance based fee schedule. Staff reached out to PIMCO and learned PIMCO was willing to discuss it with the Board if they were receptive. The fee schedule for all the investment managers was presented to the Board because they requested it at the 12/17/15 meeting.

John O'Hare stated PIMCO was seeking this change because it would benefit PIMCO.

Mr. Cuaron said yes but he was not sure they were seeking the change so much as suggesting they were open to negotiation.

Mr. O'Hare stated he remembered it as them seeking the change, and the Board needed to discuss the fee schedules because those listed in the chart seemed high for managers just trying to match the performance of the benchmark.

Mr. Coffey asked how the fees compared to those charged to similar pension funds.

Mr. Cuaron answered he would have to research it and he did not know how the other plans would react to the request for that information.

Mr. O'Hare answered public pension funds, which were their peers, would be able to provide that information.

Chairman Fleming asked if they could distinguish between the things that would be interesting to know and those things that the Board really needs to know in order to improve the quality of the fund. If they learned the average fee paid by public pension plans of comparable size was 0.01% lower than those charged to TSRS, would it mean that TSRS would try to renegotiate all of their management fees?

Mr. O'Hare answered if it was a significant difference they should.

Chairman Fleming asked why the managers would agree to reduce their fees by 0.1% because on average other plans paid that much less and how much of the TSRS resources would be used to obtain that information.

Mr. O'Hare answered they would only know if they asked, and he thought there could be an opportunity to save money for the plan and the City.

Chairman Fleming asked if Callan could review the management fees and determine if any of them are high.

Mr. Coffey stated these were negotiated contracts that would be up for renegotiation at some point. In the meantime the question was whether the Board should agree with PIMCO's suggestion, and staff was recommending not to.

Chairman Fleming stated his recollection was that a Board member said if PIMCO was so sure of their methods why not offer fees based on performance.

Mr. Cuaron answered that was his recollection as well, these materials were provided for informational purposes as a part of the Board's due diligence and no legal action was necessary.

C. **Investment Activity Report**

1. TSRS Portfolio Composition, Transactions and Performance Review for 12/31/15

Art Cuaron explained the market was down and had been since the beginning of the year and there was increased volatility in December, so what the Board will see is decreases in the Total Fund stocks and bonds

and moderate increases in real estate and infrastructure. As of 12/31/15 the Total Fund was $710M, which is down $13.3M from 11/30/15. To provide some context, as of 01/27/16 the Total Fund was $676M. The Fed decided yesterday to hold rates steady which implies they are concerned with global and US events.

John O'Hare said the Board was looking at a 20 to 40 year horizon in which returns will fluctuate.

Mr. Cuaron said he wanted to impress on the Board that they needed to look at these numbers over a long period of time and not make any decisions which might affect that long term horizon, despite the fact that the fund is substantially down with the market volatility.

Calendar YTD – The Total Fund is down 1.87% from the November return of 1.49%, and continues to trail the index by about 1.5%. Total Fixed is -0.10%, which was a decrease of about 92 basis points from the November return of 0.82%, and trailed the index by 67 basis points. Total Equities returned -3.18%, which was a decrease of 2.93% from the November return of -0.25%, and trailed the index by 2.25%. The Board asked staff to report when returns have been affected by withdrawals to fund pension obligations. In December $5M was withdrawn from BlackRock, so the December return of -8.43% was inclusive of that withdrawal. The return would have been -0.21% if the $5M had remained.

Mr. O'Hare said it would be helpful to see what the actual earnings were.

Mr. Cuaron explained that number was not included in the materials but could be in the future if the Board advised on how they would like to see the information. The materials presented to the Board were prepared in the same way the materials had previously been prepared. Three spreadsheets were created to calculate returns unaffected by TSRS withdrawals and can be provided to the Board.

Mr. O'Hare asked if the Board would like to see those spreadsheets in order to judge the managers on their performance and not what staff was doing.

Mr. Cuaron stated he could present the information both ways.

Mr. O'Hare answered he would prefer to see both sets of numbers.

Chairman Fleming asked about when contributions are made to a fund.

Mr. Cuaron answered it has not happened since he started 6 months ago, but it could be done the same way.

Chairman Fleming stated it was not helpful to include contributions and withdrawals as part of the returns.

Silvia Amparano said they had the option of changing the materials provided to the Board to reflect the monthly withdrawals in order to give a more accurate picture of the managers' performance, or it can be left as it is with an asterisk which does not provide the information. She would prefer to see the numbers unaffected by the monthly withdrawals and asked what the notes reflect for the year end in total.

Silvia Navarro answered it was all inclusive because staff reported ending balances for each manager.

Mr. Cuaron explained the Board may not want to use the actual numbers because withdrawals are made, as needed by the fund, from the managers who are performing well.

Ms. Amparano said the investment reports have been presented this way because the actual numbers tied to the statements.

Mr. Cuaron stated Callan reported on the actual numbers in the funds.

Michael Coffey stated there were 2 elements to this, one was the actual performance and the other was to look at the relative performance of the various fund managers over time.

Keven Larson explained the standard for calculating investment return was to ignore the changes in the balances from contributions or withdrawals. He thought Callan reported on the performance of the manager regardless of the balance changes initiated by TSRS staff.

Mr. Cuaron and Ms. Navarro explained it would be a large amount of work to present the Board with performance unaffected by TSRS contributions and withdrawals because the withdrawals are taken from different managers every month.

Ms. Amparano asked whether staff could receive a monthly report from Callan.

Mr. Cuaron answered the reports come from the custodian. Staff takes the custodial information and generates reports as a cross check. These reports are presented to the Board every month. The custodial reports could be provided as backup documentation if the Board desired.

Ms. Amparano stated she wanted to make sure they were not duplicating efforts and asked whether reports could be obtained from the custodian with the actual returns instead.

Ms. Navarro answered yes but there would have to be some customization in the BNY Mellon Workbench because the reports currently provided numbers for 1 month, 3 months, and one year. These are the numbers used to create the reports provided to the Board. However, staff would still need to cross check the numbers because discrepancies are found from time to time.

Mr. Larson suggested asking Callan for reports to be provided to the Board.

Chairman Fleming asked staff to continue as usual but present the Board with the BNY Mellon reports at the next meeting.

Mr. Cuaron stated he brought them as back up. The BNY Mellon reports were passed around for the Board's review.

Chairman Fleming asked if Callan could produce a monthly report as suggested.

Mr. Cuaron said he would ask them.

Ms. Navarro asked what the Board wanted Callan to present in these reports.

Chairman Fleming answered the Board really wanted to see performance vs. the benchmark.

Ms. Navarro explained there were 2 different sources, but Callan probably got their numbers from BNY Mellon, and asked Board would the Board still want to see the BNY Mellon reports as well.

Ms. Amparano answered if the BNY Mellon reports could be customized for the Board that would be best because they are the source of the information in all the other reports.

Chairman Fleming said the exact level of detail currently provided was not needed, a report with similar information and easier to produce would be fine; he only needed a 18 month rolling report instead of all the different reports the Board currently receives.

Mr. Cuaron questioned the practicality of staff covering the information given in the reports at the meetings and suggested adding the reports with an executive summary to the consent agenda. He would still be available at

the meetings if the Board pulled the reports from the consent agenda in order to ask questions.

Mr. Coffey stated he did not feel the need for staff to read the numbers off of the reports provided, and understood the reason so many reports were prepared was at the request of the Board and the work built up over time.

Chairman Fleming considered having a couple of Board members work with staff to determine a balance between useful information and ease of production for the investment reports to be presented to the Board.

Mr. Coffey understood the point of the reports presented to the Board was to allow them to judge the performance of the managers, and the easiest and most logical way to present that information would be fine.

Chairman Fleming said an executive summary would highlight the significant information for the month.

Mr. O'Hare expressed interest in attempting to move the investment reports to the consent agenda with an executive summary included and having staff available to answer questions instead of reading the report to the Board.

Mr. Cuaron explained the reports would be provided as they always have until the Board makes a definitive decision to change them, but significant information would be better conveyed in an executive summary. If the Board had any questions the item could be pulled from the consent agenda and ask those questions of staff at the meeting, this would allow for more efficient use of the Board's time and the executive summary would outline any unusual or interesting observations.

Jorge Hernández expressed support for a report that would isolate the performance of the different allocations of the fund, and asked whether there would be supplemental material added to the report outlining the withdrawals and contributions affecting the allocations.

Mr. Cuaron answered this was provided on the report titled "Schedule of Cash Transfers between Investment Accounts and/or Fund 072". There was a $59K outflow, on top of the $5M withdrawn from Black Rock, from LaSalle because the fund was being closed.

Chairman Fleming asked staff to continue providing the Board with the current reports as well as an executive summary and try adding the investment reports to the consent agenda. He also expressed interest in designing a report that would be more useful to the Board and easier for staff to prepare.

Mr. Larson stated he was willing to assist in designing the new report, and suggested he review a draft the executive summary with staff.

Mr. O'Hare asked to see a draft of the executive summary as well.

D. **Articles for Board Member Education / Discussion**
   1. Letter from Callan to Clients: Identifying Asset Mix to Achieve Expected Rate of Return

E. **Call to Audience** – None heard.

F. **Future Agenda Items**
   1. March 31, 2016 meeting – Investment Manger Visit –Fidelity

Chairman Fleming asked if Fidelity representatives would be attending the meeting scheduled for 3/31/2016.

Silvia Navarro explained 2 managers, Causeway and Fidelity, came in to the meeting on 3/26/2015 and asked whether the Board would like to see 2 managers or just Fidelity.

John O'Hare asked whether they would be sending a portfolio manager or a sales representative.

Ms. Navarro answered they could request a manager.

Mr. O'Hare asked who the Board saw last time Fidelity came because they were extremely educational.

Mr. Cuaron stated he would find out.

Ms. Navarro asked if the Board would like to see Causeway as well.

Mr. O'Hare asked if Causeway could send in a portfolio manager instead of a relationship manager.

Ms. Navarro and Mr. Cuaron stated they would request a portfolio manager.

Chairman Fleming stated there was no compelling request from the Board on who the manager should be so it was at the discretion of staff.

G. **Adjournment** – 9:38 AM

Approved:

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