TUCSON SUPPLEMENTAL RETIREMENT SYSTEM
BOARD OF TRUSTEES
Meeting Minutes

DATE: **Thursday, February 28, 2019**
TIME: **8:30 a.m.**
PLACE: **Human Resource Conference Room, 3rd floor East**
City Hall, 255 West Alameda
Tucson, Arizona 85701

Members Present:	Mark Rubin, Chairman Joyce Garland, Finance Director James Wysocki, Elected Retiree Representative Michael Coffey, Elected Representative Jorge Hernández, Elected Representative Kevin Larson, City Manager Appointee
Staff Present	Art Cuaron, Pension & Benefits Administrator Tina Gamez, Administrative Assistant
Guests Present	Catherine Langford, Yoder & Langford – TSRS Legal Counsel (via telephone) Dave Deibel, Deputy City Attorney Pete Saxton, Pension Manager John O'Hare, Constituent Paul Erlendson, Callan LLC
Absent/Excused:	Ana Urquijo, HR Director

Chairman Rubin called the meeting to order at 8:30am

A. **Consent Agenda (00:13 - 01:04)**
1. Retirement Ratifications for February 2019
2. January 2019 TSRS Budget Vs. Actual Expenses
3. January 2019 Board Meeting Minutes [Note 1]
4. TSRS January Investment Measurement Service Monthly Review

A motion to approve the Minutes was made by Jim Wysocki, 2nd by Jorge Hernandez, and passed by a vote of 5 to 0 (Ana Urquijo absent/excused).

B. **Call to Audience (01:05 - 01:14)**

None heard

C. **Investment Activity Report (01:34-03:33) (27:57 – 01:07:05)**

1. **TSRS Quarterly Performance Review for 12/30/18 - Callan LLC (27:57- 01:07:05)**

Paul Erlendson presented the TSRS quarterly performance review as of December 31, 2018. Paul explained to the Board that most of the managers in the portfolio have performed well over the last 3 and 5 year time horizons. The majority of the lag in the overall return was generated from the portfolios non-US equity managers. Paul touched on Causeway and their overall underperformance. Callan doesn't have any recommendation to change any managers in the non-US equity allocation but would like to present a deeper dive when they come back in May to present the Q1 2019 performance.

Paul noted that for the month of January the portfolio was up 5.4%. He also explained that 95% of how the fund performs is the mix of asset allocation. He indicated that active managers have added extra value to the

overall fund performance. Paul went through the funds asset allocation and compared the performance to that of other public funds.

2. **Introduction to Asset/Liability Study Considerations (01:07:14 - 01:47:41)**

Paul Erlendson from Callan provided an overview of the forthcoming Asset/Liability study to the Board. He highlighted the formula the Board will look over the next 3 or 4 months and the decision points to consider as the asset/liability model unfolds. Paul pointed out that Callan will be looking to the Board to define its risk tolerance as that will guide future asset allocations.

Paul advise the Board that the ultimate goal of asset allocations is to deploy assets in a manner consistent which objectives, time horizon and liquidity requirements.

Art reminded the Board that a decision will need to be made with respect to its allocation to Infrastructure. Paul indicated that is something Callan will look at as part of the asset/liability study.

Paul asked the Board for a priority list in terms of risk that will aide in Callan's presentation of available asset mixes to choose from.

Kevin requested to see the information as soon as it's available to allow the Board time to review and digest the information. Art agreed to place this as a standing agenda item over the next 4 months. Callan committed to providing the information in accordance with the Board's request.

Presentation given by Paul Erlendson, discussion held. No formal action taken.

D. **Administrative Discussions**

1. **TSRS FY 2020 Budget Discussion (01:47:44 - 01:54:46)**

Art Cuaron presented the TSRS FY 2020 recommended budget to the Board. He explained that the budget is flat compared to FY 2019 with minor increases to adjust for salary increases that the City has provided to employees over the past 6-9 months and a requested increase of $14,000 to the travel budget as a result of increased desire from Board members to travel to various conferences. Art noted that the revenue budget was increased due to the value of the fund at the time of budget preparation.

Art also informed the Board of the changes made to the miscellaneous professional services line item. He noted that he worked with Budget and Accounting to create new budget line items specific to TSRS to account for carried interest expense, consultants and surveys and investment advisory expenses. He explained that these line items would more clearly reflect the expenses paid by the plan.

A motion was made by Jim Wysocki, 2nd by Kevin Larson to approve the TSRS FY2020 Recommended Budget, motion passes 6-0 (Ana Urquijo absent/excused).

2. **TSRS Rules and Regulations – Investment Policy Statement (01:54:47 - 02:22:04)**

Catherine Langford, Yoder & Langford- TSRS Legal Counsel (via telephone) informed the Board on the update on the Rules and Regulations and the draft of the Investment Policy Statement. Once the Board rules and the Board polices have been adopted they will be filled with the City Clerk's Office.

Catherine Langford informed the Board on the changes to Rules 7, 11 and 11 as well as the Governance Policy and Funding Policy.

Catherine briefed the Board that the Investment Policy Statement in its current version has been in place since March 2017. She commented that her edits were made to reflect the current TSRS structure. She also stated that the Investment Policy is the Boards and it should describe how they want to interact with Callan, Investment Consultants and the various investment managers. She noted to take caution in including the roles of staff within this document as well as the fact that the Investment Policy Statement is very lengthy and wants the Board to be comfortable with what's noted in the policy and that the policy reflect the actual process followed by the Board and staff.

Paul Erlendson commented that the Department of Labor and SEC is clear on having Investment Policy Statements. The policy is getting lengthy. Paul commented that there is a ways to shorten it, but as long as it reflects the view of the Boards expectations and responsibilities.

Catherine noted that Board has invested a lot of time over the past years on Rules and Policies and she could work with Paul on this and will bring back a shorter more specific version of the Investment Policy Statement. Catherine asked about the PRBI Policy. The Board provided direction to include the PRBI in the Board Rules and discuss the policies viability.
Art informed the Board that he will place the PRBI on next month's agenda and including the existing one as a reference.

Discussion held, no formal action taken.

3. **Board Member Term Limits (15:33 - 27:55)**

This item was taken out of order and discussed after item D4.

James Wysocki introduced his proposal to increase Board member term limits. James suggested that all Board members have the same terms. James would like to modify his proposal instead of removing term limits for elected Board members but to increase the number terms from 2 to 3 before the member is termed out.

Chairman Rubin commented that this would have to be a recommendation to the Mayor and Council.
Dave Deibel commented that term limits are in the City's chapter (10A) that generally governs all Boards and Commissions. Each at 4 year terms with 2 term limits. Michael Coffey commented that TSRS has 3 year terms for the Board members.

Chairman Rubin asked James if he would like to recommend a motion to modify his recommendation to Mayor and Council that the term limit not change but the elected Board members have 4 year terms instead of 3.
Joyce Garland asked Art Cuaron what the turnover has been as far as the term limits. Art Cuaron commented that there has been only one turnover, which was the elected retiree representative as the former representative had termed out.

Art Cuaron will be drafting a communication report before the end of the calendar year requesting the change to increase the existing terms of the elected Board representatives by one year.

A motion to recommend to Mayor and Council that the TSRS Board elected representatives term be modified from 3 to 4 year terms was made by James Wysocki, 2nd by Jorge Hernandez. Motion passed by a vote of 6-0 (Ana Urquijo absent/excused).

4. **Addition of Elected Retiree Board Member (03:36-15:32)**

This item was taken out of order and discussed after item B.

James Wysocki introduced his proposal and recommendation to add an additional elected retiree Board Member.

Chairman Rubin asked James is he making a motion to add an additional elected retiree board member. James agreed. Chairman Rubin asked for a second. Michael Coffey clarified that the motion would be to recommend to Mayor and Council that TSRS add an additional elected retiree Board Member. Michael Coffey 2nd the motion.

Chairman Rubin asked the Board if there was a discussion. Kevin Larson commented that he liked the odd number of Board member mainly due to when it comes to close votes with disability request from employees that become disabled prior to their pension.

James Wysocki commented that this would just require more of a debate. Joyce Garland agrees and prefers keeping the members as odd number for voting purposes. James Wysocki commented that when TSRS was created we had more active employees than retirees. Currently that has changed we have more retirees than

active employees. James would like to see more of an equal amount of representatives from active employees and from retirees. Cassie Langford commented and reminded the Board that Code sets up this structure. The Board has it set to have City appointed board members, elected board members and elected retirees. Once everyone is on the Board, the Board has the fiduciary role. Everyone on this Board is a trustee and has to carry out the best interest for all members both active and retirees.
Chairman Rubin indicated most governing boards have odd number members and having eight Board members could be problematic.

A motion to recommend to Mayor and Council that the TSRS Board add an additional board member and that member be elected from the Retiree population was made by James Wysocki, 2nd by Michael Coffey. The motion failed 2-3 (Kevin Larson, Joyce Garland and Jorge Hernandez dissented (Ana Urquijo absent/excused).

5. **Update on TSRS Internal Audit (02:22:05 - 02:39:58)**

Art Cuaron updated the Board on the TSRS Internal Audit. Art reminded the Board that the three areas identified in the audit report were: Wire Transfers/Authorization Process, Benefit Payment Process and the member data management from GRS.

Art commented with the hire of the Pension Manager it has been implemented and he reviews the capital Call needs and prepares the wire transfers and Art Cuaron signs off on the transfer and once completed the administrative assistance then sends it to BNY Mellon.

Art discussed the monthly bank reconciliation with accounting services and has agreed to do this on a monthly basis and stated that the CAFR is complete and will be filed with the GFOAZ.

The benefit payment process cannot be implemented due to payroll having the same opportunity to update the payee and records in the same manner as TSRS staff. Pete Saxton commented on the new electronic system. All checks are compared to the source documentation to ensure that it's accurate and appropriate.

Kevin Larson asked who sees the modification to the payee or vendor. Pete commented that the Lead Pension Analyst reviews it, then Pete will review the entire packet prior to it going to AP. Art commented that this is pertaining to rollovers and transfer outs. Pete noted that nobody in the office has the ability to update payee information, only AP has that access.

Art informed the Board that he will engage the Internal Audit team to follow through and affirm that the changes described above have been made and recommendations implemented where appropriate and feasible.

Discussion held, no formal action taken

6. **Consideration for TSRS to Hire External Legal Counsel (02:40:00 - 03:03:23)**

Art informed the Board that this was a follow up item from the Retreat. Chief Deputy City Attorney Dave Deibel informed the Board that the Mayor and Council provide authority to the City Attorney to hire external legal counsel through section 28-19 of the City's Procurement Code.

Discussion held, no formal action taken.

E. **Articles & Readings for Board Member Education / Discussion**
   1. The Epic Clash Between Bonds and Stocks is Coming Back
   2. LDI Strategies and Preparing DB Plans for Recessions
   3. These 10 Emerging Markets Will Dominate the Global Economy In the Next Decade

F. **Future Agenda Items**
   1. TSRS Rules and Regulations

G. **Adjournment**
   Adjourned 11:34 AM

p/p _____ 3-28-19

Mark Rubin — Date
Chairman of the Board

_____ 3-28-19

Art Quaron — Date
Pension & Benefits Administrator