

DEFERRED COMPENSATION PLAN MANAGEMENT BOARD

Minutes for the March 14, 2014 Regular Meeting
255 West Alameda, 5th Floor West Conference Room
Tucson, AZ 85701

Members Present: Joe Barkenbush, Chair
Steve Postil, Elected Member
Dennis Woodrich, Elected Member
Silvia Amparano, Finance Director (left and returned)
Curry Hale, Designee for HR Director (late)

Staff Present: Michael Hermanson, Plan Administrator
Melissa Waychoff, Administrative Assistant
Allan Bentkowski, Investment Manager
Karen Tenace, Deputy Director Finance

Guests Present: Catherine Schupp, ICMA-RC
Ken Wedemeyer, ICMA-RC
Gary Helm, ICMA-RC
Mary Inorio, ICMA-RC
Hua Lei, ICMA-RC (via phone)

Absent, Excused: Lani Simmons, HR Director

A) Call to Order - Chairman Joe Barkenbush called the meeting to order at 9:00AM after confirming that a quorum was present.

B) Consent Agenda - approval of Board meeting minutes from December 12, 2013

Motion to approve consent agenda was made by Silvia Amparano, 2nd by Dennis Woodrich. Motion passed 4 to 0 (Curry Hale arrived late).

C) Legal Question on Account Balance Loans for Retirees

A request to allow loans from a retired status account was made by one of our retirees, even though the entire account balance is available to them upon termination from City employment. Our current loan policy only allows loans to active participants. The response from ICMA's legal department was that the IRS does not restrict allowing loans to retirees, but we cannot provide the employer with guidance on this and the employer would need to amend their loan agreement to make this possible. Silvia Amparano questions whether we should do this at all given this could cause a risk, even if it is a small risk. **Motion to deny amending the Plan's loan agreement allowing retirees to borrow money from their deferred comp account made by Silvia Amparano, 2nd by Chairman Barkenbush, motion passed 4 to 1 (Steve Postil nay).**

D) Investment Performance on Participant Accounts for 4th Quarter 2013

1. Review Investment Policy Revisions / Acceptance

Chairman Barkenbush has issue with the language in the first paragraph; it should read "selecting and maintaining appropriate investment options for the plan" instead of "safekeeping."

2. Review Monitoring Criteria to Investment Policy

Our investment policy does not have a lot of specificity at the present time in terms of how we judge quantitative and qualitative criterion for the watch list.

3. Glossary of terms used in Monitoring Criteria

4. Review Fund Line-up Performance thru 12/31/2013

a. Scorecard Metrics

We would like to make monitoring investment performance an easier process by referring to the score card metrics shown. There are about 60 or 70 criteria from which to choose, the ones shown have best correlation to our Investment policy.

Fund Line-up review for 12/31/2013:

PIMCO Real Return – has not passed 4 of 12 criteria. It does **not meet the criteria to be on the watch list**.

Chairman Barkenbush asked if we should be concerned about PIMCO given the departure of one of their number two executive, Muhammad Al-areon, but Catherine Schupp responded that Bill Gross, the number one, is sticking with the company. There was a lot of conflict between the two. PIMCO attracts the most intelligent, well compensated people in the industry and they work the hardest. ICMA is monitoring PIMCO very closely.

PIMCO High Yield – one of the most conservative high yield funds. Other high yield funds would be inherently more risky. 1, 3, and 5 year returns are in the 3rd quartile for returns. It is lagging its peer ranking and it is expected it will continue to lag in peer rankings. This fund will perform better in the risk-off market, but worse in the risk-on market. We will continue to **keep this fund on the watch list**.

Vanguard Total Bond Market Index Fund – Performance relative to benchmark and peer group is underperforming. This fund is **not on the watch list**. The performance of index fund is most impacted by fees. If the fees are higher than average, the fund will underperform funds that have a lower fee structure. It is expected, based on fees, that it will underperform the benchmark. Morningstar does not have a separate category for only index funds. They are not truly underperforming.

Vantagepoint Model Port Traditional Gr Inv M – Has not passed 6 out of 12 criteria including three and five year performance, five year batting average, and 1, 3, and 5 year performance versus the benchmark. **Watch list status – not on the watch list**.

b. Funds on Watch List during 2013

Goldman Sachs Mid Cap Value – Presumed to still be on the watch list. It is moving in the right direction. It is in the 3rd quartile for 1, 3, and 5 year returns. There are alternatives if it is something the Board wants to consider. This did not pass criteria on the 1, 3, and 5 year performance versus the benchmark. For the one year it underperformed relative to the benchmark and it was pushed into the 3rd quartile, on a relative basis it seems to have significantly underperformed. ICMA would migrate to a conservative option. The fees are higher for this share class. There are less expensive share classes available for this fund. We could move to a more economical share class for Goldman. Options of funds to switch to are: Vanguard Mid-Cap Value Index or Vantagepoint Select Value Investor. The consensus is to keep watching this fund.

Columbia Acorn – TimesSquare Mid Cap has passed 9 of 12 metrics; whereas Columbia Acorn has passed 3 of the 12 metrics. It is the worst of the three options. Columbia Acorn has been underperforming the benchmark. TimesSquare has performed better than Munder. We should map Columbia Acorn to TimesSquare. The fees are higher with TimesSquare relative to Munder. **Motion to map Columbia Acorn to TimesSquare Mid Cap Growth Prem as soon as administratively possible made by Curry Hale, 2nd by Steve Postil, motion passed 4 to 0 (Silvia Amparano exited the meeting).**

T. Rowe Price Small Cap – This is a fund in the standard bundle. Given the risk-on market, it was anticipated the fund would underperform peers; however, it has underperformed more significantly than ICMA is comfortable with. The manager of this fund has announced his retirement within 6 months. His successor has worked with him for seven years. This has been underperforming the benchmark significantly. This fund has been in the line-up for a long time. This fund is less spicy than the overall category. It is less risky relative to the category and is more conservative. It did have decent returns, but is lagging peers and benchmark in returns. It is lagging the index fund significantly. It has 250 participants. If the formal watch list language was adopted, this fund would not fall in the category. Chairman Barkenbush does not think it is a good fund to be in the line-up. The consensus is to **leave on the watch list at this time**.

There is a robust line-up of options in the fixed income class, but they are all getting used and no duplication. We have 53 investment options, but if the target based funds are considered as one fund then we only have 30 options, which is about where we wanted to be. Chairman Barkenbush does not think we need to add anything, we have everything covered. Oppenheimer Developing Markets met all 12 criteria. Nuveen Real Estate met 11 out of 12 criteria. Global Natural Resources did not do well in 2013, but it has outperformed the benchmark each year back to 2008.

5. Consideration of Funds to be removed and Replacement Funds

Funds currently on the watch list: PIMCO High Yield, T. Rowe Price Small Cap, and Goldman Sachs Mid Cap Value.

6. Implementation timeline for changes

Michael Hermanson would like to know if there is any reason to hold off on the line-up changes (one was identified for Columbia Acorn, which would not be implemented until June or July). Michael Hermanson just wants to be sure we are comfortable with proceeding with the one change and consider other changes later. Chairman Barkenbush thought the one change would be fine for now. All participants will receive a communication about the changes in the next 60-90 days.

7. Review of Fund Share Class Options – effect on AAA

R1 Share Class is 0.80%, R3 is 0.54%, R5 is 0.25%, R7 is 0.15%, R8 is 0.10%, and R9 is 0.05%. R9 estimated revised admin allowance is \$138,834. **Motion by Steve Postil to approve moving VT Plus, VT Vantagepoint Actively Managed, Milestone and Model Portfolio Funds to the R9 (lowest cost) share class available as soon as administratively possible; the only exception to this is the Plus Fund, which has a preferred expense rate in our contract with ICMA RC, 2nd by Dennis Woodrich, motion passed 5 to 0.**

E) City of Tucson 457 Enrollment Incentive Program

1. Summary Highlights from 2013

The enrollment incentive program included 144 enrollments. We did not use out entire expected amount of 300 new enrollments; we met just under half of that. The program is ongoing in the year 2014. We are at 63.6% penetration. Compared to other programs, we are doing very well. There are 1344 inactives.

2. AAA balance review

For the Board's information, there is a small amount of earnings on the account balance, but the \$12,500 provided by ICMA is our allowance to offset our administrative expenses and \$50,000 is from our contract. In accounts, there will be a line item showing addition to your account, which is based on the account balance you have at the end of the year and it is a reallocation and should be close to \$220,000. This occurs early in the year.

F) Educational Programming Report

1. Number of presentations

There have been 10 seminars so far this year and 28 seminars contract to date and 70 are required for the contract for Mary Inorio. Curry Hale has heard several complaints about Mary Inorio being hard to reach and has experienced it himself. He is on the PSPRS Board and PSPRS Board members have even made the same complaints. Gary Helm would like to know the names of the two Board members so he could reach out to them himself. Curry Hale stated everyone seems to prefer Tom Axline. Tom Axline is required to have 16 on site seminars and has had 2 so far. There are also webinars available and we would like to get the schedule of those on our web site.

2. Attendance

There have been 58 attendees at Mary's seminars so far this year and 232 attendees contract to date. Attendance has waned over time because the novelty wears off, but the feedback is positive. There have been 43 transactions year to date and 112 transactions contract to date. Mary Inorio is committed to 140 days on site and has been on site 62 days contract year to date and 25 days year to date. There have been 68 portfolio reviews year to date and 181 reviews contract to date. Participation rate has stayed fairly consistent.

G) For the Board's Consideration

1. Annual Plan Report

This was discussed under Summary Highlights from 2013.

H) ICMA-RC Retirement Readiness Report

One of the services offered from our current ICMA RC contract is not being provided because the implementation requirements have not been tested is ICMA's Retirement Readiness Report (RRR). The RRR is a custom summary report that identifies a participant's projected personal retirement income flows (pension

benefits, social security, retirement savings in ICMA account) and identifies the difference between the income flow and projected spending requirements to provide participants an idea of what their "cash flow gap" is.

The information is driven from our payroll system and there is no capability to get that information over to ICMA at this point. Silvia Amparano stated it is probably possible to get this information; we may have to ask CGI. Michael Hermanson stated we have only posed the question to IT and have been told we cannot do this. Michael Hermanson stated we can certainly ask IT again. We would also need input from other sources, possibly PSPRS or the State. There is also an issue due to the Tiers in the TSRS plan and of course PSPRS formulas are different than TSRS. This report is designed to go to everyone; as an incentive to get new enrollees and to drive participation savings rates for people to help them understand what they actually need. Silvia Amparano would like to receive an example of the report and the technical requirements.

I) Call to Audience – Silvia Amparano introduced the new Deputy Finance Director, Karen Tenace. Curry Hale stated Lani Simmons would like to be removed from the Board if it is possible to switch her with Curry Hale. Michael Hermanson stated the City Code has Lani Simmons as HR Director is the named Board member and would be required to attend, but of course Curry Hale can continue to serve as her designee.

J) Adjournment - **Motion to adjourn was made by Steve Postil, 2nd by Curry Hale. Motion passed 5-0. Adjourned at 11:43AM.**

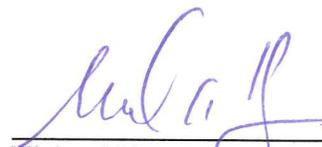
Approved:



Joe Barkenbush
Chairman of the Board

6-13-2014

Date



Michael Hermanson
Plan Administrator

06-13-14

Date