TUCSON SUPPLEMENTAL RETIREMENT SYSTEM
BOARD OF TRUSTEES
Meeting minutes from Thursday, June 25, 2015

Members Present: Robert Fleming, Chairman
Curry Hale, HR Director
Silvia Amparano, Director of Finance
Michael Coffey, Elected Representative
John O'Hare, Elected Retiree Representative

Staff Present: Chris Avery, City Attorney's Office
Silvia Navarro, Treasury Administrator
Allan Bentkowski, Treasury Finance Manager
Michael Hermanson, Plan Administrator
Dennis Woodrich, Lead Pension Analyst
Dawn Davis, Administrative Assistant

Guests Present: Jorge Hernández, City of Tucson Employee
Tami Norman, City of Tucson Employee
Randal Norman, Spouse of Tami Norman
Heather Manriquez, Daughter of Tami Norman

Absent/Excused: Kevin Larson, City Manager Appointee

Call to order- Chairman Fleming called the meeting to order at 8:30 AM.

A. **Consent Agenda**

1. Approval of May 28, 2015 TSRS Board Meeting Minutes
2. Retirement ratifications for June 2015
3. May 2015 TSRS expenses compared to budget
4. Adoption of TSRS Investment Policy Statement dated June 25, 2015
   a. Investment Policy and Objectives – DRAFT reviewed at May 28, 2015
   b. Board member comments received by TSRS staff concerning Draft Investment Policies + staff responses
   c. Investment Policy and Objectives – June 2015 FINAL version
5. Adoption of TSRS Governance Policies dated June 25, 2015

A motion to approve the Consent Agenda was made by Silvia Amparano, 2nd by Curry Hale, and passed by a vote of 4 – 0 (Chairman Fleming did not vote).

B. **Application For Disability Retirement** – Tami Norman*

A motion to approve disability retirement for Tami Norman was made by John O'Hare, 2nd by Silvia Amparano.

A motion to go into executive session was made by Curry Hale, 2nd by Silvia Amparano, and passed by a vote of 4 – 0 (Chairman Fleming did not vote).

A motion to return to regular session was made by Silvia Amparano, 2nd by Curry Hale, and passed by a vote of 4 – 0 (Chairman Fleming did not vote).

Disability retirement for Tami Norman was approved by a vote of 3 – 1 (Michael Coffey dissenting, Chairman Fleming did not vote).

C. **Administrative Discussions**

1. Introduction of Candidates for Open Board Position
   a. Jorge Hernandez
   b. Jorge Riveros

Michael Hermanson introduced Jorge Hernández and advised the Board that Jorge Riveros declined to serve on the TSRS Board of Supervisors due to his inability to attend the meetings.

Chairman Fleming asked Mr. Hernández to tell the Board about himself.

Jorge Hernández has a bachelor's degree in economics, his interest in finance, markets, and economics has stayed with him over time and he believes serving on this Board would be a great opportunity to combine his background, experience, and interests to make a meaningful contribution to the City and his fellow employees. At a previous job he was one of 2 people who handled the employee savings program containing 401K and profit sharing components; he worked with the 3rd party administrators, accountants, and to a lesser extent the investment managers. He reviewed many of the application and eligibility requirements, the calculations for benefit and contribution amounts, discrimination test results, IRS annual return reports, and anything dealing with distributions. He worked with accounting on the annual compliance audit by pulling all the necessary documents and acting on any recommendations from the accountants for the trustees, and is also familiar with ERISA rules and regulations. Given the opportunity he looked forward to implementing that knowledge.

Michael Coffey asked what ALPFA was after reading about it in the information provided on Mr. Hernández for the previous Board election.

Mr. Hernández answered it was the Association of Latino Professionals in Finance and Accounting. It is a national organization with between 30,000 and 40,000 members nationwide and in Puerto Rico.

A motion to appoint Jorge Hernández to the TSRS Board of Supervisors was made by Curry Hale, 2nd by Silvia Amparano.

Mr. Hale stated Mr. Hernández attended the Board retreat on October 31, 2014, to learn what being a Board member entailed which showed a lot of initiative.

Mr. Hermanson advised Mr. Hernández that his current term would end December 2017.

The motion passed by a vote of 4 – 0 (Chairman Fleming did not vote).

2. Securities Litigation Engagement - Robbins Geller Rudman & Dowd

Michael Hermanson explained the last orders from the Board were to proceed with what he understood to be a limited engagement; beginning with this firm performing a free securities litigation audit, then provide the Board with any results, then the Board could decide whether they wanted to continue or terminate the engagement. Understanding the Board's stated limitations, the City Attorney's Office (CAO), rewrote the engagement letter provided by Robbins Geller to indicate the limitations, but the firm would not accept any changes to their engagement letter. As a result, Mr. Deibel indicated there should be further clarification with the Board before proceeding.

Michael Coffey asked for clarification on the difference between the engagement letters.

Mr. Hermanson said the CAO specified the engagement would only be for the initial audit of foregone litigation opportunities and the resulting report. The firm wants to use their standard engagement letter which includes starting the engagement with an audit and proceeds with continuous monitoring and monthly reports. It would be a free service, lasting until the Board terminated the engagement, which could be done at any time.

Chris Avery said the decision about whether to engage in any litigation had to be made by the Mayor and Council. The decision about who to hire to proceed with any approved litigation had to be made by the CAO. The general philosophy of the CAO is that they do not actively search for litigation.

Chairman Fleming clarified that litigation was not included in the engagement letter.

Mr. Hermanson answered that would be a separate decision, the Board would be informed there was a litigation opportunity missed by BNY Mellon, who currently registers the City of Tucson for any appropriate class action lawsuits.

Mr. Coffey asked what the potential upside was for engaging with this firm.

Mr. Hermanson answered the potential upside was they would find that BNY Mellon had missed litigation opportunities, and that the Board has an opportunity to pursue litigation and utilize their services.

Chairman Fleming said they would sign the agreement and the law firm would tell them 1 of 3 things: BNY Mellon has done well and there were no missed litigation opportunities, there are some missed lawsuits and the Board needs to fill out a form to collect the money, or they think there was a case they could litigate for the Board. He did not believe there was any need to be anxious about hiring a litigator because they were not near that point by signing the agreement as presented.

John O'Hare said there was a 4th option where if the firm found a litigation opportunity the Board could request the CAO perform a request for proposal (RFP).

Mr. Avery advised that the CAO did not generally perform RFPs for litigation. Robbins, Geller, Rudman & Dowd were trying to put their firm in a position where, by default, they would become the attorneys the CAO would choose to perform the litigations.

Mr. Hermanson said the idea was to bring the engagement letter back and confirm whether the Board wanted to proceed with the agreement.

Mr. O'Hare suggested the Board terminate the engagement once the initial audit report is received and discuss what to do if any missed litigation opportunities are found.

Silvia Amparano clarified the Board would only make a recommendation that the CAO enter into an agreement with this firm.

Mr. Avery answered the CAO decides what counsel will be hired.

Chairman Fleming did not believe they were discussing hiring counsel because they would be hired as consultants not attorneys. The Board might have a fiduciary duty to hire them because there was a realistic possibility there was significant money available with zero risk to obtain more information about it.

Mr. Hermanson asked if the Board wanted to proceed with the engagement letter, after it is reviewed by the CAO.

Mr. Hale asked if the CAO was advising against proceeding with the engagement.

Mr. Avery answered the CAO was not advising against it, they were cautioning against actively seeking out litigation.

Mr. Coffey clarified that the issue the Board ought to be concerned with was whether there was money available that they were unaware of. **A motion to accept the unedited engagement letter provided by Robbins, Geller, Rudman & Dowd was made by Michael Coffey, 2nd by John O'Hare.**

Mr. Hale stated he understood the Board's fiduciary duty but they should make sure to have a full understanding of the issue if they will be going against the CAO recommendation.

Mr. Hermanson clarified that the CAO was trying to protect the interests stated by the Board at the meeting held on May 28, 2015, by limiting the engagement solely to the audit and the firm rejected those changes. The Board could proceed with no changes or decline the engagement altogether, they would not be going against the CAO either way.

Mr. Avery explained if the Board was not hiring the firm to be their attorney they did not need a legal firm and could issue an RFP for an accounting firm or securities consultant and not involve the CAO.

Chairman Fleming answered an offer where the service will be free could not be beaten by an RFP after incurring the loss of time, and administrative and Dollar costs associated with issuing an RFP.

Mr. Hermanson said if the Board reached a point where they might hire the firm, then they could request an RFP from the CAO.

The motion passed by a vote of 3 – 1 (Curry Hale dissenting, Chairman Fleming did not vote).

3. Progress Report on Reconfiguration of Quarterly Retiree Report

Michael Hermanson reported CGI (the City's payroll software vendor) had successfully recreated the quarterly statement to include the year to date pay amounts requested by CTRA a few months ago. The new quarterly statements will be mailed out with the CTRA newsletter in the next few days.

D. **Investment Activity Report**

1. Board Briefing of Transition Manager Interviews Scheduled for June 3, 2015

Allan Bentkowski reported the transition managers were interviewed June 3, 2015; and staff, along with Callan, had decided to hire Black Rock, Penserra, and Macquarie Capital as the three transition managers on call for future asset transitions. The agreements have been reviewed by treasury staff and the CAO, who advised to have outside council review them further. Catherine Langford, the Board's outside legal counsel will be reviewing the agreements should have get them back to staff by the end of June 2015. Once that is done, staff will ask these 3 managers to prepare a cost estimate for the upcoming transition and a finalist will be selected.

Chairman Fleming asked if staff would be bringing the selection of the Transition Manager back to the Board for a vote before making a final decision.

Mr. Bentkowski answered no.

Michael Coffey advised this was identified as one of the responsibilities of staff in the Investment Policy Statement approved on the consent agenda earlier today.

Michael Hermanson said the Board members could be present for the analysis if they chose to do so and a summary report would be provided to the Board after the decision was made.

Mr. Bentkowski stated the transaction will likely be completed before the next Board meeting on July 30, 2015.

2. TSRS Portfolio composition, transactions and performance review for 05/31/15

Allan Bentkowski reported as of 5/31/15 the total portfolio value was $747.5M, on 4/30/15, it was $746.3M, and $750.1M as of 6/24/15. All managers remain within the target allocation ranges. During the month of May, 2015, $3M was moved out of T. Rowe Price and $1M out of Pyramis to fund monthly retirement payments.

Calendar YTD returns – For the month of May, the Total Fund returned 0.70% vs. the Custom Plan Index at 0.42%; Total Fixed returned -0.03% vs. the Barclays Aggregate at -0.24%; Total Equities returned 1.05% vs. Equity Composite at 0.82%; Total Real Estate returned 0.73%; Total Infrastructure returned -0.43% vs. the CPI +4% at 0.84%. Through 5/31/15, the calendar YTD return for the Total Fund was 4.0% vs. 3.54% for the Custom Plan Index.

Michael Coffey asked when the last time Total Infrastructure hit its target was.

Mr. Bentkowski answered Steel River was consistently hitting the benchmark. Macquarie has had a problem lately due to valuations on the infrastructure accounts; they operate in Euros which are converted to Dollars; so as the Dollar strengthens, it affects the valuation of that account. Callan advised that the internal rate of return for Macquarie is better than the internal rate of return for Steel River. They were hired to be bond like for the infrastructure accounts and the plan is receiving cash from them regularly.

Fiscal YTD returns – As of 5/31/15 the Total Fund returned 5.37% vs. the Custom Plan Index at 5.59%; Total Fixed returned 2.22% vs. the Barclays Aggregate at 2.97%; Total Equities returned 7.02% vs. the Equity Composite at 6.30%; Total Real Estate returned 10.04% vs. NCREIF at 10.22% (as of 3/31/15); and Total Infrastructure returned -5.93% vs. the CPI +4% at 3.43%.

Trailing One Year Returns – As of 5/31/15 the Total Fund returned 7.26% vs. the Custom Plan Index at 7.43%; Total Fixed returned 2.73% vs. Barclays Aggregate at 3.02%; Total Equities returned 9.26% vs. the Equity Composite at 8.77%; Total Real Estate returned 11.30% vs. the NCREIF at 13.45% (as of 3/31/15); and Total Infrastructure returned -1.59% vs. the CPI +4% at 3.96%.

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

1. Dispersion of Returns Will Remain a Feature (T. Rowe Price Global Midyear Market Outlook 2015, June 2015)
2. Opportunities to Gain Yield and Time (T. Rowe Price Global Midyear Market Outlook 2015, June 2015)

F. **Call to Audience**

Allan Bentkowski announced this would be his last TSRS Board meeting since he will be retiring July 24, 2015. Allan thanked the Board for taking their fiduciary responsibilities seriously and appreciated his opportunities to serve this Board and those in the past.

A motion to offer Mr. Bentkowski a formal thank you for his service and congratulations was made by Michael Coffey, 2nd by Curry Hale, and passed by a vote of 4 – 0 (Chairman Fleming did not vote).

Jorge Hernández thanked the Board for their time and consideration.

G. **Future Agenda Items**

Adjournment 9:33 AM

Approved:

Robert Fleming Chairman of the Board	7/30/15 Date	Michael Hermanson Plan Administrator	07.30.15 Date