

TUCSON SUPPLEMENTAL RETIREMENT SYSTEM BOARD OF TRUSTEES MEETING MINUTES

DATE: Thursday, July 28, 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 8:36 AM)
Rebecca Hill, Interim HR Director
Karen Tenace, Deputy Director of Finance
Michael Coffey, Elected Representative (arrived 8:36 AM)
Jorge Hernández, Elected Representative
John O'Hare, Elected Retiree Representative

Staff Present: Dave Deibel, Deputy City Attorney
Neil Galassi, Pension Administrator
Silvia Navarro, Treasury Administrator
Dmitriy Adamia, Administrative Assistant

Guests Present:

Absent/Excused:

Robert Fleming called the meeting to order at 8:30 AM.

A. Consent Agenda

1. Approval of June 30th, 2016 TSRS Board Meeting Minutes
2. Retirement ratifications for July 2016
3. June 2016 TSRS Budget Vs Actual Expenses
4. TSRS Portfolio Composition, Transactions and Performance Review

John O'Hare requested Consent Agenda item A1 be considered separately.

Chairman Fleming asked for a vote on the approval of items A2, A3, and A4 from the Consent Agenda. Consent Agenda items A2, A3, and A4 were approved by a vote of 4 – 0 (Kevin Larson and Michael Coffey absent/excused, Chairman Fleming did not vote).

Chairman Fleming asked for a vote on the approval of item A1 from the Consent Agenda. Consent Agenda item A1 failed due to a lack of quorum. (Kevin Larson and Michael Coffey absent/excused, John O'Hare abstained, and Chairman Fleming did not vote).

John O'Hare abstained from voting on the Consent Agenda item A1 because he was absent from the June 30, 2016 meeting.

B. Plan Administrator's Report

1. Report on Office Operations and Key Facts & Figures for the Past Month

Neil Galassi stated this item is a replacement to the oral reporting to the Board by staff of the investment executive summary as has been the practice in the past. The Board will notice the executive summary and Callan's Report have been moved to the consent agenda as per staff's understanding of the Board's direction. Upon meeting with Chairman Fleming last month, we discussed what would serve as a replacement for this item. We concluded avenues to allow staff to better educate the board on the operations of the TSRS Office while offering insights into the results of operations and investment activity during the month would be of great benefit to the Board. Therefore, beginning with this meeting Mr. Galassi presented an Administrator's Report to highlight operational/investment facts and figures since the last Board meeting as well as briefly educate the board on an aspect of the operation of the Retirement Office. For this month he chose the administration of the ICMA Defined Benefit Plans.

Mr. Galassi continued to state over the month of June the office processed 20 retirements. Of that amount 17 were normal retirements with 10 retiring under the medical incentive as indicated by an effective retirement date of 6/11/2016 on the ratification report, one was a disability retirement and 2 were deferred retirements. There were a total of 2,930 pension payments across all categories during the month, of that amount 2,909 were direct deposit and only 20 were live checks. The reduction in live checks is a result of an effort by TSRS staff and payroll to verify or pre-note bank accounts before the first pension payment to a retiree. This has resulted in less paper checks, 11 refunds/rollovers were processed during the month of June totaling approximately \$177,800. Procedures to reconcile the member data system (GRS) to the advantage general ledger were completed. No unidentifiable items were identified in the process, and the systems reconcile. The next step is investment reconciling and compilation for year-end reporting of which we are currently in process. TSRS staff began preparations for the annual audit to be conducted by CliftonLarsonAllen. This has involved providing schedules for audit sampling and completion of internal control narratives/forms. The audit is scheduled to begin the second week of September. We began efforts to revise standard forms to ensure the information included is the most up to date, they are readable, understandable, and they provide needed efficiencies for the office. This began with the Lump-Sum Distribution form which was updated for clarity based on member feedback. Mr. Galassi stated this part of the report is designed to offer some highlights of the portfolio from the prior month end to date, and highlight activities performed by staff related to investments during the past month. The total portfolio return as of Fiscal Year End, June 30, 2016 was 1.73% which trailed the total fund benchmark of 1.82% by 9 basis points. It should be noted other public pension plans around the county experienced similar or lower returns, for example CALPERS was at .60% for the fiscal year. The portfolio saw a near \$10 Million gain in asset value since June 30 to date. It appears domestic equities have rebounded from the previous month and the fixed income area saw gains as well. Callan will provide a report on the final quarter of the fiscal year and an economic update going forward at the August Board Meeting. He met with J.P Morgan on July 27th, they walked Mr. Galassi through the details of the Strategic Property Real Estate and the Income & Growth Real Estate Funds we have invested in. His biggest takeaway was how the strategies differ from each other and how our portfolio derives different potential benefits from each one. He learned the Strategic Property Fund derives much the majority of return from asset appreciation. That portfolio strives to invest in solid established real estate assets in the residential, retail, and Office Sectors that have excellent location and growth factors to appreciate. The Income and growth fund derives to find assets that are competitively positioned in the same sectors but with a focus on assets that provide income yields vs. appreciation. He also met with Macquarie on July 21st. He learned that fund is primarily invested, at 86% in two airports; the Copenhagen Airport, and the Brussels Airport. We discussed the bombing of the Brussels airport in late March referred to by Callan in the May meeting. He reiterated Callan's sentiments that operations were largely unaffected. Temporary passenger facilities were used for 2 weeks after the bombing and the Airport was back to 100% by June 2nd. There is insurance and regulatory ability for the airport to have carriers cover parts of the damage. There really is no immediate impact from the Brexit given the nature of the assets in the fund, but it should be worth noting Brussel's is the Headquarters' of the EU. Should the EU completely dissolve there could be an impact to the Brussels airport. The Board may have heard PIMCO announced the appointment of a new CEO, Emmanuel Roman. Mr. Galassi received a call from our relationship manager Sasha Talcott in regards to the change which they indicated they are very excited about it and the change will happen methodically. PIMCO will provide more details when they present at the annual retreat.

2. TSRS Operation Highlight – Defined Contribution Plans

ICMA RC
DEFERRED COMPENSATION PLANS

457B Plan # 301512	ROTH IRA Plan # 705608	401a Plan # 106302	401a (ER) - Plan #107425
> Open to all Employees	> Open to all Employees	> Open to all Employees	> Available <i>only</i> to APPOINTED Employees by the Mayor/Council or City Manager based on a Contract for Employment.
> Voluntary Tax deferred savings through payroll deduction.	> Voluntary AFTER TAX SAVINGS through payroll deduction.	> Voluntary Tax deferred savings through payroll deduction.	
> IRS Contribution Limits	> IRS Contribution Limits	> Available only during 90 days of hire / appointment. % based voluntary election of pay period contributions and % for final cash payout of Vacation Leave. NO CHANGES ALLOWED IN % ONCE EMPLOYEE ELECTION HAS BEEN ACCEPTED / PROCESSED.	
< Age 50 = \$ 18,000.00 > Age 50 = \$ 24,000.00 3 Year Catch Up = \$ 36,000.00	\$5,000.00 > Age 50 = \$ 6000.00	> IRS Contribution Limits \$53,000.00	
Payroll Deduction Code: ICMA *	Payroll Deduction Code: ROTH *	Payroll Deduction Code: 401AE *	Payroll Deduction Code: 401ER *

Mr. Galassi referenced the table above. He stated Chairman Fleming and staff decided it would be beneficial for the Board to have better knowledge of the operations of the Retirement Office. Therefore, with each administrator's report Mr. Galassi will bring forward an aspect of our operations to briefly describe to the Board for purposes of knowledge and education. For this meeting he chose the administration of the defined contribution plans administered by ICMA-RC. His purpose in choosing this aspect was to provide the Board a base understanding of the defined contribution plans the City offers to employees. As Board members talk to other TSRS plan members and interested parties about the TSRS, knowledge of this aspect of the operation may help as Board members may run into individuals who have questions about the these plans. ICMA-RC was brought on-board via council action in 2006 and the plans detailed in the table were established. The 457b plan that is more commonly referred to as the Deferred Compensation Plan, allows for voluntary tax deferred savings with the benefits being access to funds if you separate from employment before the age of 50 and 1/2 without the 10% tax penalty. This is offered to employees as a vehicle to save in order to supplement their retirement income.

Chairman Fleming clarified separated members are able to withdraw funds without the 10% penalty.

Mr. Galassi answered in the affirmative.

Chairman Fleming clarified the TSRS Board has no control over the deferred compensation plans.

Mr. Galassi answered in the affirmative, the Defined Contribution Board and staff controls and evaluates the deferred compensation plans.

Mr. Galassi continued Roth IRA plan is voluntary to all employees, this allows an after tax contribution and also serves as a vehicle for employees to save for retirement. The 401a plan that is only available to employees during the 1st 90 days of their employment per the plan document. This has higher contribution limits than the traditional 401k plan. Finally there is 401a ER plan that is only offered to the City Manager, City Attorney, City Clerk, and Police Chief as dictated in their individual contracts. These plans only provide for employer contributions.

Chairman Fleming asked if an employee can change their contribution rate in the 401a plan.

Mr. Galassi stated once an employee chooses a contribution rate, that rate cannot be changed.

Chairman Fleming asked for the participation level of the 401a plan.

Mr. Galassi stated in the 401a plan there are 16 participants with assets balance of \$5.2M.

Rebecca Hill asked if this information is provided during new employee orientation.

Mr. Galassi answered in the affirmative, the ICMA representative goes over the options. If the ICMA representative is unable to make it then the TSRS staff informs the new employees.

Mr. Galassi continued the 457B plan has 2,399 participants with assets balance of \$243M.

John O'Hare asked of the 2,399 how many are retired employees.

Mr. Galassi answered 2,229 active and 170 terminated.

Chairman Fleming stated once an employee is terminated they have the option to move their 457b plan to an IRA.

Mr. Galassi stated affirmative, they have the option to move their funds or leave them with ICMA.

Mr. Galassi continued the Roth plan has 44 participants with assets balance of \$631,000.

Mr. O'Hare asked does staff inform employees about these plans.

Mr. Galassi stated staff is in the process of improving the communication with employees, the table referenced above is framed and placed at the front desk and the City Attorney's office has been provided this information for management contracts. Additionally every year the 3rd week of October is National Save for Retirement week, TSRS staff and ICMA representatives schedule events around the City to meet with City employees to discuss retirement options. The ICMA Administrative Fund pays for TSRS staff and operation expenses.

Ms. Hill asked if employees can request a percentage of their pay check to be contributed to one of these plans instead of a set dollar amount.

Mr. Galassi answered unfortunately at this point in time that is not an option. Staff is working with the Payroll System to possibly add that as an option for the future.

Chairman Fleming clarified if an employee has been with the City for 10 years and wants to enroll into the 401a plan, that employee is unable to enroll because it is past the first 90 days.

Mr. Galassi answered in the affirmative, that is the way the plan document is written. The main difference between the plans is the contribution limits.

Mr. O'Hare stated once an employee reaches the contribution limit, they cannot contribute anymore.

Mr. Galassi stated it is an annual limit. Additionally TSRS staff oversees and monitors the relationship with ICMA in conjunction with the Defined Contribution Plan Board. The Pension Administrator is the named Plan Coordinator for all ICMA plans. TSRS Staff ensures employee contribution amounts as set up by the employee with ICMA are correctly represented in the payroll system. We review the file generated by payroll on a bi-weekly basis for correct submission of contribution amounts by each participating employee to ICMA. We also facilitate rollover of leave before retirement if desired by the employee. We facilitate plan member communication with ICMA as questions and circumstances arise.

Michael Coffey asked if these are the only products offered by ICMA.

Mr. Galassi answered these are the only products the City has an agreement with ICMA to offer.

Mr. Coffey asked how does the City of Tucson participation numbers compare to other governmental retirement systems. Maybe ICMA has other products with greater benefit to City employees.

Mr. O'Hare stated City employees are able to participate in a Roth IRA with a 3rd party company, not having to choose ICMA.

Mr. Galassi stated affirmative, employees may participate in any retirement plan with any company they so choose. The benefit for a City employee to choose ICMA is the lower management fees, the management fee for the Roth IRA plan though ICMA is 0.075 percent of aggregate assets.

Mr. O'Hare stated that is a huge benefit to City employees.

Mr. Coffey asked if staff is planning on promoting these plans to employees.

Mr. Galassi stated affirmative, staff has information posted in the office and on the internet. Additionally during National Save for Retirement week staff is able to communicate this information to employees and participation levels are very high, there were over 150 new enrollments during last year's event.

Karen Tenace stated there was very good participation during last year's National Save for Retirement week, staff set-up different stations with information on all of the plans and employees were able to get their retirement estimates.

C. Administrative Discussions

1. Education Plan for Staff and Trustees

Neil Galassi stated the TSRS Board of Trustees and the City of Tucson are both committed to hiring and retaining a competent and qualified staff to oversee the operation and administration of the TSRS. In addition, the TSRS Board of Trustees must have the ability to effectuate the administration, management, and operation of the system as dictated in City code Sec. 22-44 Board of Trustees. To that end, onboarding of new Board members and continuing professional education is a crucial element to ensure both staff and Board members obtain and utilize the most current and relevant information to facilitate their roles with the TSRS on an ongoing basis. It is the philosophy of the Board that TSRS staff is given access to the necessary training and resources to perform their day to day duties from the inception of their employment. The Pension Administrator is responsible for ensuring TSRS staff continually possess the necessary and most recent information and training to facilitate appropriate job performance. The Pension Administrator will devise an education strategy that is most relevant to each position. The strategy will involve inter-office cross training, utilization of internal subject matter experts, and external continuing professional education as approved by the Pension Administrator. The Pension Administrator will actively seek any and all training opportunities for staff on an ongoing basis. It has been the philosophy of the TSRS that Board Members are individually responsible for ensuring they retain the necessary knowledge and competence to perform their duties as dictated in the City code. To that end a training budget is established on an annual basis to be utilized by both the Trustees and Staff to obtain current and relevant training. The Pension administrator will actively seek out external training avenues, and make all efforts to notify board members in a timely manner to allow board members to plan for potential attendance.

Mr. Galassi stated he provided to the Board information and advance notice with their materials on the Opal Public Funds Summit to occur in Scottsdale, Arizona on January 9th through the 11th 2017. In case Board members need time to plan for the seminar, it is a very good educational opportunity for the Board to consider.

John O'Hare stated the local CFA chapter allows affiliate memberships for people who are not a CFA. He stated it may be a good idea for the TSRS administrator Mr. Galassi to become a member for staff education purposes.

Mr. Galassi asked Mr. O'Hare for additional information on the CFA for staff consideration.

Michael Coffey stated last year staff had a training budget of \$14,000 of which only \$400 was used. He asked if staff had something in mind for that budget this year.

Mr. Galassi answered in the affirmative, a part of that budget will be Board members and staff attending training and seminars.

Chairman Fleming asked is the Opal Public Funds Summit a good starting point for a Board member attending their first seminar.

Mr. Galassi stated he choose this seminar because of the keynote speakers and attendees which will include investment managers, consultants, attorneys, accountants, and hedge fund managers.

Chairman Fleming asked if the Board members decided to attend the seminar would the hotel and travel cost be reimbursed.

Mr. Galassi answered in the affirmative; seminar, hotel, and travel costs are a part of the training budget. If the Board is comfortable with the above framework staff would like to move forward with these parameters for staff and Board education. It is assumed this is a living document that will be added to and/or updated as necessary.

Chairman Fleming made an adjustment to Section 2 of the Education Handout. "It has been the philosophy of the TSRS that Board Members are individually responsible for ensuring they obtain and retain the necessary knowledge and competence to perform their duties as dictated in the City code".

Mr. O'Hare stated he believes that in the best interest of the active and retired City Employees there should be a requirement or a set number of hours Board members need to obtain and retain the necessary knowledge and training to perform their duties. Members should not be individually responsible for ensuring they obtain and retain the necessary knowledge and competence to perform their duties.

Chairman Fleming clarifies with Mr. O'Hare if he is asking for a mandatory number of hours dedicated to Board members training.

Mr. O'Hare stated the Board needs something that is more structured than just the individual's responsibility to obtain and retain the necessary knowledge.

Chairman Fleming stated the Board would need to see a proposal in writing for the Board to consider any changes to policy.

Mr. O'Hare stated he will make a 15 minute presentation at the August 25, 2016 TSRS Board meeting.

Mr. O'Hare stated Opal offers lots of different seminars throughout the year that Board members have the option of attending.

Mr. Galassi stated the seminar presented at today's meeting was recommended by the Director of the ASRS.

Mr. Coffey asked staff to compile a list of possible public sector pension seminars for Board members to choose from.

Karen Tenace stated the National GFOA has a pension section, the seminar is in Denver, Colorado during the month of May.

Mr. O'Hare stated the number of seminars has diminished because of budget cuts.

Mr. Galassi stated the Board's investment managers do offer client conferences.

2. Implementation of an Intern Program

Mr. Galassi summarized the benefits and cons of having an intern program for the TSRS Office. Mr. Galassi stated that at this time Staff is not bringing forward a formal internship program to the Board for recommendation. While Staff feels the benefits of an internship program would outweigh the cons, the TSRS office is currently not in a position to be adequately conducive to onboarding an intern and providing a beneficial experience. This is due to the current state of the office with all staff still onboarding and learning their roles and duties given recent noted turnover. Staff recommends revisiting the implementation of an intern program at a time when the office is better positioned to do so.

Chairman Fleming stated basically staff believes hiring an intern is a good idea but not at this time, new staff members need time to get adjusted and situated.

John O'Hare asked if staff would be ready in a year's time.

Neil Galassi stated possibly, staff will continue to evaluate and report to the board.

Chairman Fleming stated staff does not need Board approval to hire an intern as long as staff stays within the approved budget.

Mr. O'Hare stated the Tucson Water has been very successful hiring interns.

3. Retreat Topics Update

Neil Galassi stated as of July 28, 2016 we have 5 very good speakers attending the retreat. Andrew Goldberg from JP Morgan will be presenting a Guide to the Markets. GRS will be presenting the actuarial report which leads to the Board's recommend contribution rate to the Mayor and council for the next fiscal year. As well as 50/50 split contribution rate discussion presented by GRS. External legal counsel Catherine Langford will facilitate the fiduciary training. Callan will be presenting on currency. PIMCO will discuss Stocks Plus, Custom Fix Income, and the Economic update. And Black Swan events maybe worked into the retreat discussion.

John O'Hare asked to see Pimco's projections from last year to see how accurate they were.

Kevin Larson stated GASB statements #68 and #71 could be a retreat topic.

Mr. Galassi stated a GASB discussion will be added to the retreat topics.

D. Articles for Board Member Education / Discussion

1. J.P. Morgan – Asset Class Implications Post Brexit
2. Callan Associates Inc. – Thoughts and Summary on Brexit
3. Wall Street Journal – Brexit Adds to Pension Funds' Pain

E. Call to Audience - None heard.

F. Future Agenda Items

1. Duties and Selection of Advisory Board
2. TSRS Board Annual Evaluation of Staff and Consultants
3. Formal Evaluation of Active Managers – 1.5% over benchmark over a given period
4. RFQ for Actuarial Services
5. Action Plan for Black Swan Events
6. Would It Be Better to Index the Whole Fund

- 7. BlackRock – Annual Manager Review
- 8. Champlain Investment Partners – Annual Manager Review

G. **Adjournment** 9:19 A.M.

Approved:



Robert Fleming
Chairman of the Board

8/25/16
Date



Neil S. Galassi
Pension Administrator

8/25/16
Date