

DEFERRED COMPENSATION PLAN MANAGEMENT BOARD

Minutes for the June 13, 2014 Regular Meeting
255 West Alameda, 5th Floor West Conference Room
Tucson, AZ 85701

Members Present: Joe Barkenbush, Chair
Dennis Woodrich, Elected Member
Sylvia Navarro, Designee for Finance Director
Tameron Collins, Designee for HR Director

Staff Present: Michael Hermanson, Plan Administrator
Amanda Celaya-Brown, Administrative Assistant
Allan Bentkowski, Treasury Finance Manager
Michael Jesse, Lead Management Analyst

Guests Present: Gary Helm, ICMA-RC
Ken Wedemeyer, ICMA-RC
Mary Inorio, ICMA-RC

Absent, Excused: Silvia Amparano, Finance Director
Curry Hale, Interim HR Director
Steve Postil, Elected Member

A) Call to Order – Chairman Barkenbush called meeting to order at 9:00AM.

B) Consent Agenda - approval of Board meeting minutes from March 14, 2014.

Motion to approve consent agenda was made by Dennis Woodrich, 2nd by Chairman Barkenbush. **Motion passed 4-0** (Steve Postil absent).

C) Investment Performance on Participant Accounts for 1st Quarter 2014

1. Review Investment Policy Revisions / Acceptance

A brief review of the 6/13/2014 Investment Policy incorporating all comments received to date, Dennis Woodrich discussed a few of edits to this red-line version provided in today's meeting materials. Dennis asked whether additional language should be added to section III, to indicate how the trend analysis for underperforming funds would be addressed. Discussion clarified that any funds that with performance below the 50% (median) rank for 1, 3 and 5 year periods would land on the watch list and additional language to the investment policy is unnecessary. **Motion to approve / accept** Investment Policy with today's amendments made by Dennis Woodrich, 2nd by Sylvia Navarro. **Motion passed 4-0** (Steve Postil absent).

2. Review **Q1, 2014 – Analytics** (Plan Executive Summary) for 3/31/2014
3. Review 3/31/2014 **Plan Investments Report**
 - a. Scorecard Metrics
 - b. Funds on Watch List during previous periods
4. Consideration of Funds to be removed and Replacement Funds
5. Implementation timeline for changes

Ken Wedemeyer, relationship manager for ICMA-RC, began this segment by asking the Board's opinion for the materials provided for the performance review. What you have is the Plan Investments Report (122 pages), the Scorecard is part of that (1st 13 pages only). The value of the Scorecard comes from the highlighting of underperforming funds initially. The Plan Investments Report and the Plan Service Report (sent electronically), and an Executive Summary, which add Plan Analytics in a concise format. Do any of the Board members have a preference on which of these reports they receive, either electronic or in paper, or both? Consensus is to distribute electronically, then bring hard copies of the same reports for the meeting.

Turning to **page 5** of the **Plan Investments Report**, Ken indicated the City of Tucson line-up provides participants with exposure to all market sectors in the style boxes shown.

Next, Ken reviewed funds in the investment line-up against the monitoring criteria (scorecard) approved by the Board at the last quarterly meeting. The monitoring criteria indicates how funds in the line-up are performing against peer funds, if they exceed the median benchmark for 1,3 and 5 yr. periods, batting average, standard deviation, Morningstar category change, net expense ratio and manager tenure. Ken also took this opportunity to show Board members which funds have already been on the watch list and how many quarters they have been there.

Page 8 of the Scorecard identifies the following funds placed "**on watch**" according to the Investment Policy Statement (IPS): PIMCO High Yield, Oppenheimer International Bond A due to their 2011 returns put their 3 yr. returns at 77th percentile; moving to Page 9 indicates the Vantagepoint Model Port Trad Gr has a lot of red boxes, also the Vantagepoint All Equity GR Inv M, both of these have longer duration and higher quality bias, which has hurt them both on performance and puts them on the **watch list**. The VP Equity Income Investor was 22nd percentile over the 5 yr, off 4 basis points from the benchmark, so it is just barely meeting the watch list criteria. Page 10 shows the Goldman Sachs Mid, on the watch list since the 3rd quarter of 2013, it is in the VP trust, so it is monitored closely; they brought in a health care specialist to manage the health care sector and improve performance. It is now on the watch list for 3rd quarter running. With utilization at \$1.3m and 368 participants with a position in that fund, it is the only fund in the mid-cap Value sector, do we want to start looking for a replacement fund? Yes, consensus is to bring in both active and passive style replacement manager options for the September meeting to review.

As the Board decided at the March 14th meeting, the Columbia Acorn Fund will be mapped to AMG TimesSquare Mid Cap Growth on June 20th, and the fund continues to miss on the Scorecard metrics, so it is not improving. The TimesSquare Mid Cap Growth, VT Pimco High Yield and VT AMG TimesSquare Mid Cap Growth will be replaced with lower share class, reducing fees to participants that invest in those funds. The T. Rowe Price Small Cap Value is missing the 3 year metric, so it is very close to being on the watch list.

Reviewing the ICMA Target date milestone funds, Ken indicated that the benchmarks used for performance is an issue for the IPS because the benchmarks for these funds are a moving target due to the constantly changing characteristics of the glide path allocations that exist between different fund families. One other exception to the IPS analysis to note here is that the various index funds might also miss the benchmark, because comparing performance of index funds against the universe would be inappropriate.

At this time, Ken overviewed the **Executive Summary** provided for this meeting. Total assets with ICMA RC are currently at \$239.1M at March 31, 2014. A question was raised about the brokerage window account reporting, which is shown on page 61 of the Plan Service Report, showing \$5,826 with one participant. The guaranteed lifetime income accounts shown on this summary now have \$2.04m invested in this annuity conversion plan.

Page 4, Activity/Cash Flow: Shows a lot of the cash out flow movement came from the US Stock Fund, with negative cash flow probably caused by people moving out of the plan. Page 5 shows cumulative performance on all funds during the 3 months ended March 31 was a 0.8% return. Comparing March 2014 against the previous year, same period shows that amount of assets in the stable value account is, for the first time, under 50% of the account. Page 7 indicates participant asset allocation by age group, including a loan category to show which age group is borrowing against their selves.

Page 11, Ken asked if the Board or staff had any suggestions on reaching out to retirees. Mike indicated they could contact the Jean Wilkins or the Secretary of the City of Tucson Retirees Association and ask if it might be possible to present a topic at their next meeting, or announce planned educational forums in the CTRA newsletter. Another option would be to contact the Retiree Representative for TSRS and ask. Possible topics could be: Retirement Distribution Planning, Investment Advice.

Page 13 shows transaction trends. Ken points out that roll outs were high for the quarter because retirees appear to be taking the money elsewhere at the beginning of the year. Pages 14 and 15 are the participant notices mailed to inform them of the investment line-up changes made by the board at the March meeting that will occur June 20th, 2014.

D) Election Process for Expiring Board Member Term

1. Selection of Election Committee Chair
2. Announcement, Process Timeline

Steve Postil's term will be expiring in January, 2015. Dennis Woodrich is appointed as the member that does not have a term expiring as the chair of the election committee. Based on Mike's estimated timeline indicated by the draft announcement included in the board packet, the Board indicated they would like to add more time for candidates to respond. July 15 was selected as the preferred mailing date for announcing that a Board position is available.

E) Educational Programming Report, new enrollment incentive

Gary Helm passed out an update summary to the board on the contract-to-date plan activity and statistics that include presentations from both our plan representative, Mary Inorio and our Certified Financial Planner, Tom Axline. Gary added that one of the staple presentations given every year is the DROP seminar to provide information to public safety employees leaving the DROP program with a significant payout. As you might expect, this is a very competitive market. Gary added that postcards, emails and the brain shark were being used for promotion of deferred comp.

On Site Activity	YTD 01/31/14-05/30/14	Contract to Date 10/1/13 – 05/30/14
Consultation days with participants	68 days	105 days
On Site Seminars	30 Seminars, 239 attendees	47 Seminars, 355 Attendees
Portfolio Reviews	168	276
Financial Transactions	139	208
Enrollments – 457	74	123
Enrollments – Roth IRA	7	7
Contribution change	103	183
Roll-ins	\$4,833,486	\$8,145,080

Including in today's information was a report from ICMA showing the calendar period January 1, 2014 to May 30, 2014, there were 56 new participant enrollments that became eligible to receive the \$50 incentive.

F) For the Board's Consideration

1. People Regret Taking Social Security Too Early (Plan Sponsor, June 4, 2014)

Mike Hermanson indicated the article states that most retirees are uninformed about the amount of benefit they are eligible to receive and also do not understand they can choose when to commence their Social Security payments; most elect to receive their benefit too early and do not know they have a choice.

G) Call to Audience – None heard.

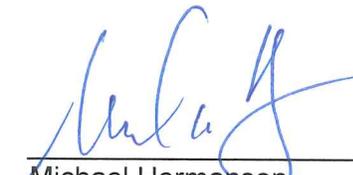
H) Adjournment – **Motion** to adjourn was made by Tameron Collins, 2nd by Dennis Woodrich. **Motion passed 4-0** (Steve Postil absent). Meeting adjourned at 10:43AM.

Approved:



Joe Barkenbush
Chairman of the Board

12-5-2014
Date



Michael Hermanson
Plan Administrator

12-05-14
Date