

DEFERRED COMPENSATION PLAN MANAGEMENT BOARD

Notice of Regular Meeting/Agenda

Minutes for the September 12th, 2014 Regular Meeting
255 West Alameda, 5th Floor West Conference Room
Tucson, AZ 85701

Members Present: Joe Barkenbush, Chair
Dennis Woodrich, Elected Member
Betsy Conroy, Designee for HR Director
Steve Postil, Elected Member
Silvia Amparano, Finance Director

Staff Present: Bob Szelewski, Designee for Plan Administrator
Veronica Natividad, Executive Assistant
Amanda Celaya-Brown, Administrative Assistant
Allan Bentkowski, Treasury Finance Manager
Silvia Navarro, Treasury Administrator

Guests Present: Gary Helm, ICMA-RC
Ken Wedemeyer, ICMA-RC
Tom Axline - ICMA-RC

Absent, Excused: Curry Hale, HR Director
Michael Hermanson, Plan Administrator
Mary Inorio, ICMA-RC

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

B) Consent Agenda - approval of Board meeting minutes from June 13, 2014

Allan Bentkowski indicated a couple of typo's from the June 13, 2014 minutes, which will be corrected. Silvia A. suggests we table approval of the minutes and bring them back corrected at the next meeting. Chairman agrees to table the consent agenda until the next meeting.

C) Investment Performance Review

1. Plan Investments Report for June 30, 2014
 - a. Scorecard Metrics
 - b. Watch List Report
2. Consideration of Funds to be removed and Replacement Funds
3. Implementation timeline for changes

Ken Wedemeyer indicated there was a revision to watch list report included in the Board packets. Ken then proceeded to review the watch list / trend sheet and inform the board on how the mutual funds in the lineup are doing.

The Vanguard Total Bond fund was added to the COT lineup last year. This fund has continued to underperform, which could be related to some of the departed portfolio managers that have left the firm recently. Silvia A. asks about the Vanguard first quarter figures, Ken responds there was a change in their manager tenure which seemed odd, but he will confirm and get back to us next quarter.

Moving to the Pimco High Yield fund, now showing improvement on their three year performance compared to the previous quarterly report. The one year performance continues to struggle, similar to many of Pimco's funds. Ken points out the management tenure periods are moving down. There has been some movement out of the fund, but the fund is holding its own. Looking at more recent performance, Ken added that fund is actually doing better on the one year period. Ken added that Board members

should be wary, there is a lot of volatility right now, some to the upside, but there are also some funds are falling off their benchmark performance.

Moving on to discussing the high yield fund, Ken explains this fund is at 3 of the last six quarter and defers to the committee if they would like that officially on the Watch List. At this point, Ken goes over the One, Three and Five years and asks for clarification if it was decided that any fund that missed would officially be put on the Watch List or just keep an eye on them unless they have a trend in the number of quarters. Ken requests guidance from the committee on how they would like to monitor these funds. Chairman Barkenbush asks how they are doing versus their peers; whether they losing value. There are some on the Watch List that are losing 200 or 300 basis points. Ken directs the board to view Page 15 of 118 of the Scorecard Report. Pimco will probably be in that category, barely missing on the 3 year performance. Ken's opinion is now 3 on the 6. Allan's opinion is the 3 and 5 year are more significant, if the one year doesn't put it on the watchlist. Ken thinks if the one year is so bad, and the fund performs every other year very well and every other year very badly, it's going to affect it in the 3 and 5 at some point. Ken moves on to discuss the Scorecard report, Oppenheimer International Bond. If we look at the plans, we have a total between both plans, 198 positions in the 457 and the 401. 180 in the 457, 18 in the 401 together they are .5 percent of the assets in all the plans. Chairman Barkenbush refers to page 16 of the Scorecard Report; on the one year they were 3.65% below the benchmark on annual performance, 52 basis points on the 5 year and the 3 year and 51 basis points on the 5 on the plus side.

Ken explains the one year would be 75, the 3yr would be 68 and the 5yr actually went improved to 63rd percentile. So, it has moved a little to the upside of the 3 year in terms of evaluating performance. Ken would be happy to provide alternatives at the next meeting, or because they only have a small amount of assets, perhaps it is wiser to leave them on the watch list and see what happens at the annual review in March 2015. Allan notes, looking at the 3 year; it produced 0.52% over the benchmark but on the 3 year return its pure rankings are in the 80th percentile, so even though it produced a positive return, it's still down? Ken responds yes, it's a hard category right now in terms of managing. Chairman Barkenbush comments that a lot of it is being triggered by the most recent year performance. He asks if the current data shows any improvement. Ken answers that the one year is a little better but because something has fallen off a little bit, then the 3 year is where we really start to focus, but it's missing the IPS by 18 or 13 percentage points compared to peer on both the 3 and 5. Chairman asks the board if they should look for alternatives, to which the board responds they would like to keep it on watch a little longer.

From a fiduciary stand point if there's something the Board feels should be done, we should do that. We typically measure the manager's performance critically and make a decision at the March meeting and implement in June. Continue to watch Oppenheimer.

Dennis requested the watch list background color to be red so that it jumps out more. Ken will make the change. Goldman Sachs under midcap (page 21), from last meeting, the Board asked for alternatives and the performance has been falling, but it has recently come back up.

Handout provided – there was an option to replace Goldman Sachs with a Vanguard fund. Ken asked the Board if they wanted to make a change on this now. The Chairman asked for confirmation; if we made a decision now it won't take effect until January? Ken Wedemeyer responded "Yes". The chairman noted it's been in the lineup for 4 qtrs.

Chairman Barkenbush notes, we would consider Vanguard if we drop Goldman Sachs. Ken – from last meeting and from past history, we typically don't make many changes until the annual fund review in March. Chairman Barkenbush added, when we look at Oppenheimer as part of the bond fund, how about the Vanguard Open Index Fund. Steve Postil asked if the index fund has any international exposure? If you are ok with waiting another quarter...come back with alternatives in December. The chairman confirmed they should keep them on the watch list and see what happens next quarter. The Chairman requested whether the Board wanted to see Goldman Sachs with alternatives at the December meeting? Ken Wedemeyer asked if the Board wanted to look for alternatives (replacement funds for fund that was removed).

- D) Election Process for Expiring Board Member Term
1. Report on letters of interest received from candidates

Election Committee Chair, Dennis Woodrich indicated the only participant indicating an interest in serving on the Board was the incumbent, Steve Postil. Mike sent out notifications to everyone with an account balance, soliciting whether they wanted to serve on the board. No one responded.

2. Board approval to acclaim incumbent candidate Steve Postil for 3 year term beginning January 2015
A **motion** was made to approve Steve Postil for another 3 year term by the Board Chair, 2nd by Dennis Woodrich. **Motion passed (5-0)** to acclaim Steve Postil.

E) Educational Programming Report, new enrollment incentive ¹

1. Number of presentations
2. Attendance
3. New Enrollments with incentive thru June 1, 2014 to August 30, 2014 and Year to Date Info

On a year to date basis, there have been 108 new enrollments, indicating this effort has been a difficult uphill battle. We are not enticing as many people. From the beginning of the incentive program we are finding a downward trend in interest for new participants to enroll. We need to work on a campaign to reach more people and get them interested in the program. We should try to looking at every opportunity to market to the folks not participating. There has been some interest in the Roth IRA, but that hasn't moved very much either.

Chairman Barkenbush would like to know how many people dropped off the system or decreased their contribution- Gary will check on that. On the other hand, roll-ins from other programs have been fairly steady. Roll-outs are a bit higher, though, especially with Firefighters. Tom Axline, discussing Tucson Education Update (page 3 of on-site service and Tucson Education handout). There are two people with over 2 million in deferred comp. Tom works with Lane Mandle in CMO to notify employees of educational forums available to learn more. Ken asks if it's a weekly thing we can do for event registration.

The Chairman asked, have we reached out to retirees? Gary answers that they did reach out, but nothing got scheduled. The Chairman indicated he didn't see Deferred Comp being any different or less important than TSRS and added that he would contact someone to see what we can do.

F) For the Board's Information

1. Highlights of Administrative Allowance Account - June 30, 2014 (information only)
2. Return of Fees to Participants since 10/2006 conversion (information only)
3. Administrative Allowance Received by the City in Support of the Plan since 10/2006 conversion
4. Select Plan Statistics at June 30, 2014

Chairman goes over handout provided by administrator Mike Hermanson. We are now in the lowest cost asset classes available. Chair asks if there are any questions on the handouts?

G) Call to Audience – None heard

Adjournment -

H) Adjournment – **Motion** to adjourn was made by Silvia Amparano, 2nd by Dennis Woodrich. **Motion passed 5-0**. Meeting adjourned at 10:42AM.

I)

Approved:



Joe Barkenbush
Chairman of the Board

12-5-2014
Date



Michael Hermanson
Plan Administrator

12-05-14
Date