DEFERRED COMPENSATION PLAN MANAGEMENT BOARD
Minutes for the March 21, 2013 Regular Meeting

Members Present:	Joe Barkenbush, Chair Steve Postil, Elected Member Dennis Woodrich, Elected Member Curry Hale, Designee for HR Director
Absent, Excused:	Lani Simmons, HR Director Kelly Gottschalk, CFO and Assistant City Manager
Staff Present:	Allan Bentkowski, Investment Manager Michael Hermanson, Plan Administrator Melissa Waychoff, Administrative Assistant
Guests Present:	Catherine Schupp, ICMA-RC Ken Wedemeyer, ICMA-RC Mary Inorio, ICMA-RC Gary Helm, ICMA-RC (via teleconference until 11am)

A) Call to Order - Chairman Joe Barkenbush called the meeting to order at 8:32AM after confirming that a quorum was present.
B) Consent Agenda - approval of Board meeting minutes from November 29, 2012

Motion to approve consent agenda was made by Steve Postil, 2nd by Dennis Woodrich. Motion passed 4 to 0.

C) Investment Performance on Participant Accounts for 4th Quarter 2012 – Catherine Schupp
   1. 12/31/2012 Plan Service Report (excluding Investments Section)
   2. 12/31/2012 Plan Service Report – Investments Section

   Economic overview: U.S. real GDP estimate was 1.4%, but the actual number was adjusted downward to 0.1%. It is anticipated to be back up in 2% range for the 1st quarter. Unemployment rate was reported previously as down to 7.7%, but Chairman Barkenbush stated he read it's back up to about 8.4% (now) due to seasonal employees being laid off.

   During discussion of interest rates charged by the Fed, Catherine Schupp stated, there's an old rule in investing that says: "Don't fight the Fed"; in the context of Bond investing. The Fed has telegraphed and repeated their pledge to keep short-term interest rates at a record low of near zero until at least late 2014, indicating their preference to wait for improvements to the rates of employment before considering a change. Home sales hit a 3 year high for existing homes; core Consumer Price Index is at 1.9% at December 31, 2012. One year returns in the Equity markets are some of the strongest we have seen in years.

   Participants have been asking more questions about performance on their accounts, indicating that they recognize movement in the market, but during 2012, performance was "time period dependent", meaning that the volatility in the market, has shown dramatic quarter to quarter results, and depending on when they were looking at their statements, the result could be dramatically different. Michael Hermanson pointed out it is good sign that participants are actually looking at their statements to see how they are doing rather than just assuming it is not doing well and not even looking at them. Ken Wedemeyer would like to have participants sign up for e-statements and discussion indicated that might be possible.

For the last year there has basically been no change in the yield curve. Corporate high yield returned about 15.81%. High yield has not historically done so well, so the numbers are expected to revert back to their historical averages. Investors want to lock in their gains but are worried about the short term down side. Chairman Barkenbush suggested investing in a lower duration fund that will have less volatility. Objectives in managing the VT PLUS Fund are capital preservation and returns, stability and rate responsiveness as well as liquidity. The majority of the fund is invested in either Aaa or Aa. There are four tiers in managing the fund: Tier 1 is Cash Buffer, Tier 2 is Shorter Duration Focus, Tier 3 is Laddered Maturity, and Tier 4 is Total Return Focus.

3. Review Fund Line-up Performance
4. Funds on Watch List
5. Consideration of Replacement Funds
6. Implementation timeline for any line-up changes

<u>Columbia Diversified Equity Income</u>
Still in 3rd quartile in 3 and 5 year ranks. There has been a manager change on this fund. One manager jumped ship and went to another firm, this is a qualitative change. Morning star rating for 3 year is 3, 5 year is 2, and 10 year is 5, with a 4 star rating overall. 0.16% of assets and 0.46% of the total are in this account. Chairman Barkenbush if it is not being used, why look for a replacement. Steve Postil thinks we have too many in the lineup. Negatives are management change, unknown value, underperforming benchmarks slightly. Three alternatives have been provided in Large Value and are AllianGI NFJ Dividend Value, Dodge & Cox Stock, and Loomis Sayles Value.

<u>Alliance NFJ Dividend Value</u> – Performance is lumpy, but is deep value.

<u>Dodge & Cox Stock</u> - Seems like a higher performer for 1 year, but are more volatile if you look at their range. Lowest expense ratio fund on the list at 52 basis points. A higher Sharpe ratio is preferred. **Steve Postil motioned to drop Columbia Diversified Equity Income, 2nd by Curry Hale, motion passed 4-0.** We will not look at a replacement fund; we will map it to Vantagepoint Equity Income. This should go into effect in approximately 90 days, possibly July 1, 2013.

<u>JPMorgan US Equity</u>
Large blend - outperformed over the last year, wound up in 16th percentile.

<u>Neuberger Berman Socially Resp Tr</u>
Morningstar rating is 3 overall, 3 for 3 year, 3 for 5 year, 4 for 10 year. Has very low participation. **Dennis Woodrich motioned to drop Neuberger Berman Socially Resp Tr, 2nd by Curry Hale, motion passed 4-0.**

Chairman Barkenbush asked if we want to replace it. Michael Hermanson suggested maybe we bypass Parnussis as a replacement. Normally map from large growth to large growth, which would be Fidelity Contrafund or T. Rowe Price Growth Stock. They are both relatively equivalent. The adoption rate is also very close, the fee is different by 4 basis points, and T. Rowe Price is lower. Or it could go into the Vanguard 500 Index, which is a large blend. This could go to QDIA or to a fund. Steve Postil would rather put them into an index fund, just like the S & P 500. **Curry Hale motioned to map it to T. Rowe Price, 2nd by Chairman Barkenbush, motion passed 4-0.**

<u>Goldman Sachs Mid Cap</u>
Morningstar rating is 3 in each category. It was a recommendation to put them on the watch list because of their movement in the Morningstar ratings. They are fine now. There are no concerns so we will not take any action on this. We only make changes once a year.

<u>Royce Premier Service</u>
Morningstar rating overall is a 4, 3 year is a 3, 5 year is a 4, 10 year is a 5. For their 3 year, 5 year, and 10 year returns, they are getting results, which is a good for a long term investor. This was added for exposure to a natural resources fund. This fund is doing better and is staying on par (Michael Hermanson). This fund

represents just over 3% of assets. Chairman Barkenbush stated this fund suffered in 2012, but on the 3 year and 5 year the performance has been better. Dennis Woodrich thinks we should let this sit. Steven Postil recommended we keep Royce Premier Service on the watch list.

<u>BlackRock Small Cap Growth Equity</u>
Effective May 1st, this will have a new portfolio manager; there will be a significant change to how the fund is run. The new manager will apply a more quantitative driven process. Performance has been poor. Morningstar rating is down to 2 for 3 year and 5 year. Overall rating is 3 and 10 year is 3 for Morningstar. Alternatives include Eagle Small Cap Growth, Oppenheimer Discovery, and RS Small Cap Growth. **Steve Postil motioned to eliminate BlackRock Small Cap Growth Equity, 2nd by Curry Hale, motion passed 4-0.**

<u>Eagle Small Cap Growth</u>: Morningstar rating 4 for overall, 4 for 3 year, 4 for 5 year, and N/A for 10 year. It has been around a shorter time, but team has been together for 19 years. Expense ratio is a little lower.

<u>Oppenheimer Discovery</u>: Morningstar rating 4 for overall, 5 for 3 year, 4 for 5 year, 3 for 10 year. It has been around a lot longer than Eagle, but the team has been there a shorter period. Expense ratio is a little higher. Oppenheimer Discovery will have more oversight because they are in VT.

<u>RS Small Cap Growth</u>: Morningstar rating 3 for overall, 3 for 3 year, 3 for 5 year, N/A for 10 year. **Steve Postil motioned to map funds to Oppenheimer Discovery, 2nd by Dennis Woodrich, motion passed 4-0.**

<u>Cohen & Steers Realty Shares</u>
Shorter term performance has been very bad, but it has not deteriorated their 5 year rank. Morningstar rating is 4 overall, 3 for 3 year, 4 for 5 year, and 4 for 10 year. Has a 1.03 expense ratio. Manager tenure is significantly longer. As of March 15, 2013, 3 year was 68th percentile, 5 year was 16th percentile.
Real Estate Alternatives include Neuberger Berman Real Estate, Nuveen Real Estate Securities, and Virtus Real Estate Securities.

<u>Neuberger Berman Real Estate</u>: significantly smaller and are able to invest in smaller sized REITs at a larger level. Morningstar overall is 4 and 3 year is 4. No 5 year or 10 year rating.

<u>Nuveen Real Estate Securities</u>: and 1.04 expense ratio very strong fund available through the trust. Morningstar overall rating is 5, 3 year is 4, 5 year is 4, and 10 year is 5. Assets are 0.8% of the plan. 350 participants in the 457 have this fund. Will also invest in non-REITs. 12th percentile for 3 year and 7th percentile for 5 year as of 3/15/13.

<u>Virtus Real Estate Securities</u>: Morningstar rated a 3 for overall, 4 for 3 year, 3 for 5 year, and not rated for 10 year. 30th percentile for 3 year and 28th percentile for 5 year as of 3/15/13.
Steve Postil motioned to eliminate Cohen & Steers Realty Shares, 2nd by Dennis Woodrich, motion passed 4-0. Dennis Woodrich motioned to replace Cohen & Steers Realty Shares with Nuveen Real Estate Securities, 2nd by Curry Hale, motion passed 4-0.

<u>Vanguard Total Stock Mkt Idx</u>
This covers the whole spectrum, everything. Has a Morningstar rating of 4 overall, 4 for 3 year, 4 for 5 year and not rated for 10 year. The fees are slightly lower. This could potentially replace the other three Vanguard stock funds we have. There is a different exposure with a little more value. Total market exposure in one. Catherine Schupp believes this fund is over-weighted in large cap. Dennis Woodrich sees no reason to add it. Chairman Barkenbush does not hear a motion to make any changes. **Vanguard Total Index Fund failed to obtain a motion to be added to the line-up.**

D) Consideration of on-line brokerage accounts
1. Administrative issues involved with offering an on-line brokerage window
2. Degree of OL brokerage window offerings - mutual funds only, open trading window, or both
3. Participation
4. Implementation timeline

Michael Hermanson has noted participation in brokerage accounts with Nationwide amounting to about 10% of their plan assets (approx. $3M). For marketing purposes, he would not want to see participants select Nationwide on the basis that they have brokerage accounts and ICMA does not. Ken Wedemeyer pointed out that public safety is the largest user of the brokerage accounts nationally. ICMA has now switched to TD Ameritrade for their vendor. A plan sponsor can choose to have only mutual funds, or a plan sponsor can say anything is game. Must have a minimum balance and fees are charged to the participant and not to the plan. **Motion to adopt brokerage accounts total program contingent on approval from Mayor & Council made by Steve Postil, 2nd by Dennis Woodrich, motion passed 4-0.**

Planning note - Steve Postil would like to move the June Board meeting date because he will be out of town for the date it is scheduled. The June meeting will be moved to June 28, 2013.

E) ICMA-RC Retirement Readiness Report

City of Tucson does GAP analysis and this report can be provided to employees. The plan is for the report to roll out at the end of the calendar year. The City of Tucson feeds information to ICMA and their calculator is used to generate the analysis. It is a very powerful tool and very informative for employees.

F) City of Tucson 457 Enrollment Incentive Program for 2012
1. Summary Highlights from 2012
2. AAA balance review
3. Consideration of 2013 Enrollment Incentive Program

The City of Tucson ended the 2012 calendar year with 262 new enrollments in ICMA, so the enrollment incentive was a successful program with a positive outcome. If we do it this year, we would like to set a beginning date and end date for it again. Curry Hale stated it is important we catch as many new employees up front as possible. The plan is to do run the program again starting April 1- December 31, 2013 with the same $50 incentive and with $15,000 in the account to run the program.
Motion to for $50 new enrollment incentive running April 1-December 31, 2013 made by Steve Postil, 2nd by Curry Hale, motion passed 4-0.

Steve Postil left the meeting at 11:30AM.

G) Educational Programming Report
1. Number of presentations
2. Attendance

Ken Wedemeyer pointed out that ICMA is a little behind on the number of seminars they need to provide per their contract. Michael Hermanson stated we may need to lower the number of seminars required in the contract because the City of Tucson has not needed as many as are required. Tom Axline and Michael Hermanson are hosting pre-retirement seminar for the Transportation Department April 4th and April 5th.

H) For the Board's Consideration
1. Annual Plan Report
2. 2013 Plan Benchmarking Report

I) Call to Audience – none heard.

J) Adjournment - **Motion to adjourn was made by Curry Hale, 2nd by Dennis Woodrich. Motion passed 3-0 (Steve Postil left early). Adjourned at 11:45AM.**

Approved:

Joe Barkenbush 6-28-2013
Joe Barkenbush — Date
Chairman of the Board

06.28.13
Michael Hermanson — Date
Pension / Benefits Administrator