

DEFERRED COMPENSATION PLAN MANAGEMENT BOARD

Minutes for the September 19, 2013 Regular Meeting
255 West Alameda, 5th Floor West Conference Room
Tucson, AZ 85701

- Members Present:** Joe Barkenbush, Chair
Steve Postil, Elected Member
Dennis Woodrich, Elected Member
- Staff Present:** Michael Hermanson, Plan Administrator
Melissa Waychoff, Administrative Assistant
Allan Bentkowski, Investment Manager
Michael Jesse, Lead Management Analyst
Silvia Navarro, Treasury Administrator
- Guests Present:** Ken Wedemeyer, ICMA-RC
Gary Helm, ICMA-RC
Mary Inorio, ICMA-RC
Estrella Vasquez, Risk Management
Allie Matthews, Risk Management
- Absent, Excused:** Lani Simmons, HR Director
Kelly Gottschalk, Assistant City Manager
Silvia Amparano, Finance Director

A) Call to Order- Chairman Joe Barkenbush called the meeting to order at 8:32AM after confirming that a quorum was present.

1. Consent Agenda - approval of Board meeting minutes from June 28, 2013

Motion to approve consent agenda was made by Dennis Woodrich, 2nd by Steve Postil. Motion passed 3 to 0 (Lani Simmons absent and Kelly Gottschalk absent).

B) Review of Fund line-up investment performance for Q2, June 30, 2013

1. Fund Performance

PIMCO

Rated 3 star overall by Morningstar, but High yield funds and fixed income sector has been difficult area in this economy.

Nuveen Real Estate Securities

We switched out of this fund and unfortunately this fund is doing much better.

Model Portfolios

As of quarter end, approximately 7½% of all the plans fund balances were invested in the model portfolios. If reducing the number of funds in the line-up is desired, the model funds could be mapped to other strategies. ICMA had model portfolios before target date funds were added into the line-up. The model portfolios include: Conservative Allocation, Moderate Allocation, Aggressive Allocation, and Large Blend. The model funds have an allocation mix; part equity with allocations to bonds. However, if the desire remains to reduce the number of funds, options to do so are available if model portfolios are mapped to the plan's QDIA, which is an age 55 target date fund. But, we would want to be in a position to provide solid, sound investment reasons for pulling them from the line-up. For example, a letter could be issued to indicate that the plan's line-up was being reconfigured and a signature from members would indicate agreement; or if they don't want to migrate with the reset and wish to stay in their current allocation, they would be required to provide this request to the Retirement office. Operationally, requiring a signature would be a large undertaking.

Michael Hermanson will provide reports for the December meeting about the Model Portfolios and their participation level, to illustrate why it might make sense to pare down our 58 funds to a more reasonable number, like around 30-35. For example, the PIMCO Low Duration only has one participant. We should consider what it should look like going forward and draft a policy on what the objectives are for pulling a fund out of the line-up. As we have previously discussed, we would make sure we have at least one fund in every style box. Over the past few years, the board has opted to add new funds that performed better, but we have not any evidence that folks are interested in moving their funds to a better performing fund, because the participants in the underperforming funds are not changing. In the broader industry approach, the fund gets replaced even if there are people in that fund and it forces them to do some research. Ken Wedemeyer plans to look at how they have performed to peer, their style, if there are duplications, and then we can make decisions on moving forward for streamlining at the December 2013 meeting.

Chairman Barkenbush stated we need to be looking at how many funds we need in each of these style boxes. We need to look at poor performance for higher fees. Low participation rates are a key, but some members are not aware of their options. We still want to offer a world class fund line up in our plan. The original goal was to get our program down from over 80 funds to around 30 funds. If there was not a defined benefit plan in place, there would be more interest in the defined contribution plan. 53% of our participants are still in a stable value fund, and that is mostly in the 46-65 age group in the stable value fund.

Royce Premier Service

This fund is not doing well, is behaving quite badly in comparison to peers. They have stayed in positions that are disconcerting and they have moved to style drifting. ICMA has replaced this fund in its model portfolios effective December 2013. Ken Wedemeyer recommended this fund to be on the watch list. They do not seem to fit in any particular style box either, Ken Wedemeyer will ask for alternative funds be recommended for the March quarterly meeting.

Columbia Acorn

This was added two years ago and we have not seen much movement into it even though it is performing better than Royce Premier Service.

T. Rowe Price Small-cap Value

There has not been any movement in their Morningstar rating and it is on the watch list. They have held contrarian positions. Their one year performance is dragging their three year results. The fee differential is very large against the index. They have also drifted more to a blended fund. Small value funds do tend to drift, however. Chairman Barkenbush pointed out the index is outperforming them by up to 250-300 basis points when you take fees into consideration. A lot of indexes out there are beating the active managers due to bad decisions by the active managers.

Oppenheimer Fund

This fund is performing well. They are in top quartile on their one, three, and five year periods.

2. Study of alternate fund share classes available for our line-up

The R9 shares would reduce the expenses by about \$68K based on an administrative allowance. These shares would be available in February 2014. We will look at opportunities to streamline and at any alternatives and performance compared to peer.

3. Status of on-line brokerage account – the on-line brokerage account is available to members that meet the minimum balance requirements.

C) 457 Enrollment Incentive Program for 2013 – Year to date review of 2013 program

92 new enrollments have received their incentive deposit and another 36 are ready to be paid. That means we have about half of our available 300 still available for new enrollments. Mary Inorio stated ICMA sent a post card to every single person in Tier I and Tier II with info on the \$50 incentive, but it only provided about 6 or 7 enrollments; not much interest.

D) Status of ICMA-RC Retirement Readiness Report

There is probably no chance this will come together this year because of the conversion of our payroll systems that are on-going. This will probably happen next year. Ken Wedemeyer suggested this would be a nice follow up for mid-year 2014.

E) Educational Programming Report - plan year thru September 2013

ICMA has met the contractual goal for seminars and contacts this year. The plan has 217 new enrollments YTD through August 2013. There has been fewer roll-ins this year, due to a drop in people retiring because the DROP program is over for all the TSRS members.

Earlier this year, ICMA conducted a special enrollment fair at City Hall and 21 people enrolled. It is a challenge to get employees to these seminars even though the emails are getting sent out. Mary Inorio does office hours every week with approximately 2-3 people coming in. Dennis Woodrich stated the City is lean and people do not have time to do their jobs, so that could be why Mary Inorio does not have more people coming by or attending seminars.

Mary Inorio and Michael Hermanson have discussed the \$50 incentive for next year and since we have never been able to fulfill the goal we have with the 300 enrollees, maybe we could try an auto-enroll for all new hires and give them \$25 automatically (unconditionally). Ken Wedemeyer stated we would have to find out if this is legal in the state of Arizona. Michael Hermanson will put it on December 2013's agenda.

F) Board member Election Report

Mike Hermanson mailed out the usual solicitation/announcement for the open board position for Dennis Woodrich's board position, but only received a letter of interest from the incumbent Dennis Woodrich. Steve Postil established a Board Election Committee and since they had only one applicant, Mr. Woodrich, they recommended Dennis Woodrich for the ballot. Questions were raised about the procedure to install Dennis, and Mike agreed to request clarification from the Attorney's office.

G) National Save for Retirement Week Events – October 21,22,24, 2013

This will be catered by Beyond Bread this year, in keeping with a healthier food and "Financial and Health Wellness Theme". Gary Helms and Ken Wedemeyer will be here because Tom Axline is not available. This event will be in conjunction with the flu shots. Dennis Woodrich suggest this would be an opportunity for retirees to be trained on the new payroll system and getting their own statements online.

We plan to use the success realized from the model used last year, coupling National Save for Retirement events with flu shots because it provided an additional drawing card. The theme this year is titled "Know Your Numbers." There will be gift card drawings for raffle prizes.

H) Update on Prop. 201 Sustainable Retirement Benefits Act – November 2013 Ballot Initiative

The validity of signatures gathered for Proposition 201 was challenged in the Pima County Superior Court, which was then appealed. That resulted in an appellate court review, which upheld the lower court's findings tossing the ballot initiative out. The lawsuit finally landing in the Arizona Supreme Court, who said they would review the Petition, and that is on-going but unlikely to meet the timeline required for this year's Ballot. However, it may come back next year.

I) Call to Audience – none heard.

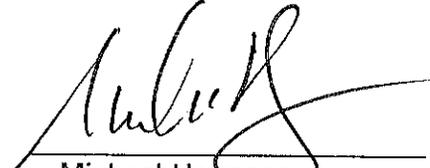
J) Adjournment - **Motion to adjourn was made by Chairman Barkenbush, 2nd by Dennis Woodrich. Motion passed 3-0. Adjourned at 9:55 AM.**

Approved:



Joe Barkenbush
Chairman of the Board

11-12-2013
Date



Michael Hermanson
Plan Administrator

12-12-13
Date