TUCSON SUPPLEMENTAL RETIREMENT SYSTEM
BOARD OF TRUSTEES

Regular Meeting Minutes-Thursday, December 19th, 2013
Finance Department Conference Room, 5th floor East
City Hall, 255 West Alameda
Tucson, Arizona 85701

Members Present:	John O'Hare, Elected Retiree Representative Silvia Amparano, Director of Finance Karen Tenace, Elected Representative Robert Fleming, Chairman Eric Kay, Elected Representative Lani Simmons, Human Resources Director
Staff Present:	Melissa Waychoff, Administrative Assistant Michael Hermanson, Pension Administrator Allan Bentkowski, Treasury Finance Manager Silvia Navarro, Treasury Administrator Michael Jesse, Lead Management Analyst Kelly Gottschalk, Assistant City Manager Dave Deibel, Deputy City Attorney
Guests Present:	Jenefer Carlin, Retiree Representative Steve Henderson, Disability Applicant Laura Clymer, Disability Applicant's Attorney Linda Hatfield, TACE Reed Palmer, Retiree
Absent/Excused:	Kevin Larson, CM appointee

Call to order – Chairman Fleming called the meeting to order at 8:33AM.

A. Consent Agenda
   1. Approval of November 7th and 21st Board Meeting Minutes
   2. Retirement ratifications for the month of December 2013
   3. November 2013 TSRS expenses

Motion to approve consent agenda with modification to November 7th's minutes and November 21st's minutes made by Silvia Amparano, 2nd by Lani Simmons**, motion approved 6-0 (Kevin Larson absent).**

B. Disability Retirement Application
   1. Steven Henderson

Motion to enter Executive Session made by Eric Kay, 2nd by Karen Tenace**, motion approved 6-0** (Kevin Larson absent). **Motion to exit Executive Session** made by John O'Hare, 2nd by Karen Tenace, **motion approved 6-0** (Kevin Larson absent). **Motion to approve Steven Henderson's disability application** made by John O'Hare, 2nd made by Karen Tenace, **motion passed 6-0 (Kevin Larson absent).**

C. Administrative Discussions
   1. Level contribution rate projections – TSRS funded status
   2. Formal policy for contribution round up

Leslie Thompson and Cassie Langford joined the discussion via telephone: (Leslie) we would like to develop a policy that minimizes changes each year; this would be called a round-up

policy. The policy outlines there would be a calculated rate and a charged rate. The draft policy works to round the calculated rate up to the charged rate, and the City's rate would round up by 50 basis points. As an example, if the City's calculated rate was 26.95%, it would round up to 27.5%. For employees, the legacy group would still be at 5%, but Tier I would be 6.75% (up from calculated rate at 6.67%) and Tier II would be 5.5% (up from 5.14%). The charged rate would never be less than the calculated rate for any member group. Karen Tenace would like to ensure the charged rate would not decrease unless we reach a certain funding ratio. The whole point of the rounding up policy is to be able to accelerate the funding slightly without requiring changes to the funding assumption.

Cassie Langford suggested putting a floor in the policy on the percentages assigned to both the employee and City rate. Michael Hermanson thinks it might be simpler to keep a floor rate until we get to 80% funding. Karen Tenace suggested we write the funding policy and how the Board would it should be decreased before setting the rate. John O'Hare thought we had agreed in April 2013 to do the 28.77% City contribution rate until the plan was 100% funded. Michael Hermanson responded we did not request the rate to be set permanently and our plan document states it is set annually. Lani Simmons is not sure where the 80% funded status came from. Michael Hermanson responded it is a generally known healthy rate. Chairman Fleming suggested we consider the funding ratio before reducing the contribution rate.

Cassie Langford likes the idea of continuing to recommend an annual contribution rate. The Code focuses on the calculated rates and that is where the legal obligation for funding is. When we ask Mayor & Council for charged rates instead of calculated rates, we are asking for something that is recommended, but we cannot enforce. Asking Mayor & Council to set the rate for 20 years is not feasible, because the Code requires rates to be set annually.

Lani Simmons left at 9:10 AM.

If the Board supports recommending an Employer contribution rate of 27.5% and can continue that rate, the actuarial projections indicate unfunded liabilities are fully paid kn 2013 and we have a funded ratio at 100.11%. If the Board continues its current funding policy using a 20 year open amortization period, paying the calculated rate (ARC) and nothing else is done to improve the funded ratio, the projections indicate the Plan will be 71.72% funded in 2031.

Perhaps changing our funding policy to a 20 year closed amortization period is better; then the calculated rate would stay higher each year rather than going down and the City would be obligated to keep the higher rate. If we switched from 20 year open to 20 year closed, we should reach 100% funded within 20 years. 20 year open funding means we never pay off unfunded amount because each year's amortization is recalculated at 20 years. If there is a contribution in excess of calculated rate, the calculated rate will continue to go down, so maybe we should measure the calculated rate on a closed policy instead. Kelly Gottschalk wants to see what the City is required to contribute and what does it cost in dollars.

The Board needs to decide on the 2015 contribution rate at the January 2014 meeting. Karen Tenace clarified it is either a hard dollar policy with the closed amortization or a soft policy with the open amortization. Kelly Gottschalk does not think the City can afford a closed 20 year policy. 20 year open and 20 year closed are the same rate in the first year and the increases would be in the following years. Karen Tenace was surprised that we would not reach the 100% funded in 20 years. Kelly Gottschalk would like to see a minimum of 80% funded in 20 years. Chairman Fleming thinks the Board will have to decide on this in January instead of today. Karen Tenace is content with the rounding up policy adding language that we do not decrease contribution rates without considering the funding level. **Motion to adopt rounding policy** with the addition that we will consider funding status before reducing contribution rate made by Karen Tenace, 2nd by Eric Kay, **motion passed 5-0** (Kevin Larson, Lani Simmons absent).

3. Discussion of rule change for elected employee representative (John O'Hare)

John O'Hare made a motion to amend the code to preclude employees who are employed in departments with standing Board positions from running for the elected position, **2nd by Karen Tenace (2-3), motion fails.**
Dave Deibel stated this policy would prohibit any employee from Finance or HR from running for the Board. Or you could remove the standing members and have four elected members.
Michael Hermanson stated in the last several elections, he noted there has been a dwindling supply of candidates running for election and it's getting harder to find qualified candidates to run. So, already there is a lack of interest in serving on the TSRS Board, and it requires a fair amount of time for an elected employee to be prepared for the meetings, who need to obtain support from their supervisor to serve. Also, the position requires a background in Finance, so if we eliminate candidates working in the Finance department, that will only make it that much harder to find.

John O'Hare suggested in the future we solicit applications via email and posting flyers around the City departments. Silvia Amparano agrees it is getting harder and harder to find candidates for the Board. Silvia Amparano would not want to put a restriction on any future Finance employees that want to sit on the Board. Eric Kay was encouraged to run for this position on the Board and he thinks it would bad to limit the scope of employees who can run. He does not think it would be a good idea to limit the future potential of an employee such as himself. John O'Hare suggested we should market the open spots for more participation in the future. Karen Tenace thinks the Board is well educated by Cassie Langford on their responsibility to the Board. Karen Tenace still has a concern about the pool.

4. Report on Pension Education Committee and Town Hall event

Karen Tenace made a motion to continue with an education effort that the TSRS Board set a formal policy to send out an executive summary to all employees in February each year:

1. Summary of board actions past year
2. Highlights of funding status and contribution rates
3. Highlights on investment performance
4. Where to go to get more detailed information

Michael Hermanson recommended we do it on a calendar year basis and issue it by the end of February. **2nd by Silvia Amparano, motion passed 5-0.** Chairman Fleming stated the Town Hall meeting went well and that another meeting in the future would be helpful.

5. Request for office equipment

In mid-December, the Retirement office moved from the Human Resources Department (3rd floor - East) to the Finance Department and will now be located on the 5th floor - West. The recent moves completed by the Retirement office during the past 2 years resulted in old file cabinets going to surplus, and this move has left us without adequate filing storage and office furnishings. As a result, Michael Hermanson requested approval from the Board to spend between $10K and $20K to take care of this. Karen Tenace asked if there is another budget line item to take this money from. Mike stated yes, it is unlikely we will exceed the overall budget for FY14 so there is another source. **Karen Tenace made a motion** to approve $10K-$20K for office equipment, 2nd by John O'Hare, **motion approved 5-0** (Kevin Larson, Lani Simmons absent).

D. Investment Activity Report

1. TSRS Portfolio composition, transactions and performance review

Allan Bentkowski stated that due to the earlier meeting date this month; the return information provided by BNY Mellon is still showing up as preliminary. Also, the monthly transfer to the City's Investment Pool account for November ($2.4 million) did not occur until early December.

Therefore, the transfer is not reflected in the Plan's balance of $699.0 million as reported at November 30. For comparison purposes, the portfolio value as of yesterday, December 18th was $697.0 million and $687.6 million as of October 31, 2014. Another $2.4 million will be transferred into the investment Pool account by late December.

Asset allocations as of November 30 for all asset classes and investment managers are within target ranges, and equity values have continued to rise while fixed income managers values are falling relative to target allocations. Total Equities have an actual allocation of 64.7% compared to the target allocation of 61%. Total Bonds have an actual allocation of 22% versus the target of 26%. Allocations for Real Estate and Infrastructure have remained steady. Real Estate is currently at 7.3% versus 8% for the target and the actual allocation for Infrastructure is 5.8% versus 5% for the target.

Calendar YTD returns:
For the month of November, the Portfolio return was 1.66% versus 1.30% for the Custom Plan Index. For CYTD, the Total Fund's returned 18.4% versus 16.13% for the Custom Plan Index. No issues for any managers except for Aberdeen as they continue to lag their respective benchmark returning 8.83% CYTD versus 14.29% for MSCI All Country, ex-U.S. index.

Fiscal YTD returns:
For the FYTD, the Total fund's return was 10.86% versus 9.09% for the Custom Plan Index. Real Estate returned 5.09% versus 3.56% for the NCREIF-ODCE index (posted quarterly though 9/30/13). Aberdeen's FYTD return was 8.97% versus 14.33% for its benchmark.

2. Discuss annual reporting considerations regarding Investment Managers

Chairman Fleming would like to have a summary sheet of basic information on a Manager when Callan attends our Board meetings and request it be designed to provide a concise, standardized table of information, instead of receiving a 30-60 page Power Point presentation from each manager. If we could ask Callan to develop that summary for the Board's use, it would allow the Board to be much more efficient and productive with our manager reviews. The Chairman also thinks Callan could be asked to recommend investment manager conferences or training opportunities for Board and Staff members, because they are likely to have better insight on specific conferences that offer good training and education.

Allan Bentkowski requested Board direction; suggesting perhaps we only bring in managers if they are under performing or if there is some other process change or change in personnel flagged. Michael Hermanson indicated one of Callan's suggestions was to require all managers to attest annually that they are following TSRS specific investment policy mandates for the money we have invested with them. Another thought is to establish a sub-committee of three Board members to work closely with Callan to review quarterly investment manager performance prior to Board meetings, report highlights to Board members during the regular meeting, formulate questions and indicate which managers should be asked to appear to present their annual report to the Board. There are pros and cons of not bringing the managers to the table. It is not very efficient to require managers to fly in from around the country for a 45 minute discussion to hear them speak and not have any actual decision issues or questions prepared.

Chairman Fleming stated if we want to continue our current model, we need to only discuss items that we want information on, minimize irrelevant information and focus on what is more pertinent to the Board. John O'Hare stated there is just as much educational value in finding out what managers are doing correctly as well as what they are doing wrong and that the Board should still be meeting with them face to face once a year. John O'Hare is in agreement that the managers should be spending their time discussing more pertinent information to the Board. Allan Bentkowski stated if the manager is doing things right, then Callan will be able to tell us that.

Allan Bentkowski needs the Board's recommendations for the 2 manager's scheduled to come in for the February and March meetings. Available options are: continue our current model and ask the managers to come in for the normal meeting discussion; skip the in-person meeting, and maybe have them present their report via teleconference; or some other variation. Silvia Amparano thinks that hearing from investment managers adds educational value, but maybe it could be once every two years and that if they are not performing well, we should definitely be meeting with them. The Board should rely more on Callan to tell us which ones they think the Board should be meeting with. Eric Kay believes we should ask Callan for their advice. Michael Jesse suggested we consider bringing a manager in if they are doing too well. Chairman Fleming stated we do still want to see managers we are scheduled to see over the next year and we might consider reducing frequency of managers that are unremarkable.

John O'Hare thinks it is an excellent idea to have the packet on an electronic basis so the beneficiaries can read the minutes and look at the packet. Michael Hermanson indicated he was researching this, and found that the same system used by the City Clerk to post agenda materials (SIRE) might be a solution, but there are some issues for us to use it, and it's not quite ready, so it will be a few more months before this can happen.

Silvia Amparano would like to revamp the Finance web site and will be looking at the TSRS web site as well now. Karen Tenace suggested looking at Ohio State's web site for ideas.

E. Articles for Board Member Education / Discussion
   1. Detroit Retirees Put on Notice in Bankruptcy Ruling (Bloomberg Dec. 3, 2013)

F. Call to Audience

Linda Hatfield gave an update on the Sustainable Retirement Act – first, the good news - the ballot initiative was defeated in the Pima County Superior Court with the TACE union footing legal bills approaching $130,000. The same group (Liberty Fund) filed another ballot measure on September 6, 2013 to go after ASRS and PSPRS retirement plans. Winning the legal battle was great, but we don't know if they will return for TSRS in 2015. Linda will share more information in the future, but wanted to let us know the unions remain very concerned about this and that all four unions are involved with the state-wide ballot initiatives.

Jenefer Carlin heard about the new ESS feature with the payroll system and is looking forward to being able to look at monthly pay stubs through the web. Silvia Amparano stated a formal notification will go out to retirees at month end with information on how to access the web site. Jenefer Carlin stated retirees assume they will still get the quarterly deposit mailers. Michael Hermanson indicated the quarterly direct deposit advices will continue to be provided in a flat file to a vendor so that they can print and mail out the quarterly notice.

Reed Palmer stated the Board is doing an excellent job.

G. Future Agenda Items
H. Adjournment - Chairman Fleming stated we are adjourned at 10:40AM.

Approved:

Robert Fleming — 1/30/14 Date
Chairman of the Board

Michael Hermanson — 01-30-14 Date
Plan Administrator