TUCSON SUPPLEMENTAL RETIREMENT SYSTEM
BOARD OF TRUSTEES

Regular Meeting Minutes-Thursday, September 25, 2014
Finance Department Conference Room, 5th floor East
City Hall, 255 West Alameda
Tucson, Arizona 85701

Members Present: Robert Fleming, Chairman
Karen Tenace, Elected Representative
Silvia Amparano, Director of Finance
Eric Kay, Elected Representative
Curry Hale, Interim HR Director
John O'Hare, Elected Retiree Representative
Kevin Larson, CM Appointee

Staff Present: Veronica Natividad, Executive Assistant
Michael Hermanson, Pension Administrator
Allan Bentkowski, Treasury Finance Manager
Silvia Navarro, Treasury Administrator
Kelly Gottschalk, Assistant City Manager

Guests Present: Jenefer Carlin, Retiree Representative

Absent/Excused: None

A. **Call to order**- Chairman Fleming called the meeting to order at 8:30 AM.

B. **Consent Agenda**
1. Approval of August 21st Board Meeting Minutes
2. Retirement ratifications for the month of September 2014
3. August 2014 TSRS expenses and revenue compared to budget

Motion to approve Consent Agenda from August 21st Board Meeting passed 7-0.

C. **Disability Retirement Application** – Gilbert Islas
John O'Hare motions to approve, Karen Tenace seconds the motion. Application is approved 7-0.

D. **Investment Activity Report**
1. TSRS Portfolio composition, transactions and performance review

Allan Bentkowski indicated as of August 31st, all investment managers and asset classes were at their respective investment policy targets. The portfolio value as of 8/31/14 stood at $735.7 million, another all-time high for TSRS. In comparison, the portfolio value at July 31, 2014 was $720.9M and as of the market close yesterday, it was $731.3M.

Investment returns for the month of August, the total fund returned 2.37% versus 2.31% for the Custom Plan Index. Fixed income returned 1.12% vs. 1.10% for the Barclays Aggregate; Total Equities returned 3.25%, matching the Equity Composite return; Infrastructure returned 0.14% vs. 0.16% for th CPI +4% index. Calendar year to date returns through August 31 were 6.67%, vs. 6.89% for the Custom Plan Index; Total Fixed Income returned 5.83% vs. 4.8% for the Barclay's Aggregate Index; all Equity manager produced positive returns yet only half met or beat their respective benchmark; Total Equities returned 7.01% versus 7.8% for the Equity Composite; Total Real Estate returned 6.03% through August versus

5.47% for the NCREIF-ODCE index measured through the latest quarter ending June 30, 2014. Total Infrastructure returned 7.60% versus 4.76% for the CPE + 4% Index.

Two months into the new fiscal year, the gains in August offset the overall losses in July. On a fiscal year to date basis, the Total Fund returned 0.97% vs. 1.10% for the Custom Plan Index. Total Fixed Income returned 0.34% vs. 0.85% for the Barclay's Aggregate; Total Equities returned 1.41% vs. 1.20% for the Equity Composite; Total Real Estate returned 0.68% and Total Infrastructure was down -1.10% vs. 0.45% for the CPI +4% index.

During August, $2.2 million was transferred out of the PIMCO StocksPlus Account at BNY Mellon to the investment pooled account to meet the monthly benefit payments to retirees. Other investment manager highlights: LaSalle Investment Management continues its liquidation of the Real Estate Income & Growth Fund IV. LaSalle has indicated that final liquidation cannot be completed until an environmental evaluation for one of its remaining buildings is complete and reviewed by the State of California. LaSalle has indicated they expect any remediation costs to be minor, but have asked for a one year extension for final liquidation as a result. Board consensus indicated no objections, so the extension request will be signed and forwarded to La Salle after signature by the Board chairman Mr. Fleming.

E. **Administrative Discussions**

1. Rules and Regulations of the TSRS Board of Trustees – section number 5.0: Employee Representative Trustee

Mike Hermanson discussed the member election question raised by a Board member at last month's meeting. The concern was focused on the possibility of having more than one elected employee member serving the Board from the same department. As the rules indicate, Mike indicated that all active employee members are eligible to apply to serve on the board; however, it is up to the Election Committee to review the qualifications and make recommendations to the Board and the Board has the obligation to either accept or reject the recommendations made from the Election Committee.

Chairman Fleming asks if the plan is to send out the notice and encourage people to come to the October meeting, get a nominating committee appointed and vote on the recommendations. Mike responded that the plan is to send out the solicitation and follow the timeline to meet the January 2015 installation deadline. At this point, the deadline for interested candidates to submit their letter of interest to be considered by the Election Committee is set for November 7th. So, the solicitation for candidates would be mailed on October 17th and they would have until November 7th to indicate their interest. At that point, the submission deadline has passed; the election committee would meet before the November board meeting and recommend a slate of candidates for the board to adopt. Then, ballots would go out around the first week in December, which would provide ample time to have the ballot count completed by the December board meeting and complete the Board member installation in January 2015.

Mr. Chairman asks if we have a nominating committee in place. Mr. Hermanson explains that the nominating committee is chaired by the incumbent employee representative, which is Eric Kay. The Board chairman adds that two non-board members who have never been on the nominating committee would be on the committee with Mr. Kay. He asks if we know who they are. Mr. Hermanson responds that Mr. Kay can indicate whom he would like to select. Chairman asks when he needs to appoint them. Should he appoint them today, at next board meeting or outside of a board meeting? Mr. Hermanson explains that Mr. Kay will recruit the committee members, as long as they have not served on an Election Committee within the past 5 years, they would be eligible to serve. Chairman Fleming requests that Mr. Kay notify him in October who the nominating committee members are. Mr. Hermanson informs the board that the solicitation provided today has been updated including any recommended changes from last board meeting.

F. **TSRS Board Membership Terms**

1. Board Member Terms expiring January 2015
2. Draft of letter to TSRS members for active employee solicitation
3. Election timeline

Agenda item F items 1-3 were discussed under Agenda Item E, Administrative Discussions. Mr. O'Hare notifies the board that the end Elected Retiree Board member term will be coming up at the end of the year. John asks Mr. Hermanson to explain how the retiree members' terms are handled. Mr. Hermanson

explains that the process is much like the process for the non-retired members, except the solicitation will be sent to retirees and votes are collected from retirees rather than active members. The solicitation already ran in the last CTRA newsletter. Mike also notified the board that Mr. O'Hare is eligible to run for another term if he so desires. Chairman Fleming reiterates that the board is not involved in that process to review or approve the candidates. Mr. Hermanson confirms the Chairman's response. Mr. O'Hare asks when the newsletter will be going out. Mr. Hermanson replies that it will be mailed out on September 29th.

G. **Articles for Board Member Education / Discussion**
   1. Research Paper - Canadian Pension Reform: the Long View (Retirement Research Consortium, Sept. 16, 2014)
   2. Report from Board Member on Corporate Reform Conference

H. **Call to Audience – Non heard**

I. **Future Agenda Items**
   1. October retreat at Arizona Inn, October 31, 2014 (an all-day meeting)
   2. Philosophy of contribution rates discussion – Board retreat item

   Chairman asks about the date of the retreat. Mr. Hermanson discusses the request to possibly change the date of the retreat. Chairman Fleming is not available to attend the retreat. Mr. Hermanson asks the other board members if there is consensus for changing the date, otherwise, the meeting will remain as scheduled for Oct 31st. No requests or response from the other board members to change the date. The retreat will remain as scheduled.

J. **Adjournment - Chairman adjourned meeting at 8:47AM.**

Approved:

for Karen Senace 12/2/14
Robert Fleming, Chairman of the Board — Date

12.02.14
Michael Hermanson, Plan Admin. — Date