

TUCSON SUPPLEMENTAL RETIREMENT SYSTEM BOARD OF TRUSTEES

Meeting minutes from Thursday, November 20th, 2014
Finance Department Conference Room, 5th floor
City Hall, 255 West Alameda, Tucson, Arizona 85701

Members Present: Silvia Amparano, Director of Finance
Eric Kay, Elected Representative, **Acting Chair**
Curry Hale, Interim HR Director
John O'Hare, Elected Retiree Representative
Kevin Larson, City Manager Appointee

Staff Present: Michael Hermanson, Plan Administrator
Allan Bentkowski, Treasury Finance Manager
Silvia Navarro, Treasury Administrator
Veronica Natividad, Executive Assistant
Kelly Gottschalk, Assistant City Manager
Dave Deibel, Deputy City Attorney

Guests Present: Jenefer Carlin, Retiree Representative
Gordon Weightman, Callan Associates
Paul Erlendson, Callan Associates

Absent/Excused: Robert Fleming, Chairman
Karen Tenace, Elected Representative

Call to order- Acting Chairman Kay called the meeting to order at 8:33 AM.

A. **Consent Agenda**

1. Approval of October 31st Board Meeting Minutes
2. Retirement ratifications for November 2014
3. October 2014 TSRS expenses and revenue compared to budget

Motion to approve the Consent Agenda made by Kevin Larson, 2nd by Curry Hale; Motion approved 5-0 (Robert Fleming and Karen Tenace excused).

B. **Administrative Discussions**

1. Actuary's projections related to Funding Policy Considerations – Leslie Thompson
2. Review of TSRS Funding Policy Draft
3. Recommended Contribution Rates for FY16

Leslie Thompson and Cassie Langford join the Board via conference call to discuss Administrative items C1 - C4.

Michael Hermanson reminded the Board of the two primary objectives for this part of today's meeting; which are, (1) completion and adoption of the TSRS Funding Policy, which was discussed in some detail at the October 31, 2014 TSRS Board meeting and has now been revised to represent issues and concerns raised during the October discussion; and (2) the Board needs to recommend an Employer contribution rate for Fiscal Year 2016, as indicated in the final version of the Funding Policy. It's important the Board make decisions on the Funding policy so that any disclosures required by GASB in our annual financial

reporting can be completed and also so that the Board is in a position to recommend the FY16 Employer contribution rates in a timely manner to allow this information to be provided to the Budget Department. In addition to these decisions; Cassie Langford, the Board's outside counsel will join us to continue discussion on the Board Governance Policies previously outlined at the October meeting. Following that introduction, the Actuary reviewed the three funding policy projections for today's discussion, as requested by the Board at the October 31 meeting; which were: (1) a baseline projection to determine contribution rates, liabilities and costs using a 7.25% investment return and the Plan's actuarial funding assumptions which use the annual normal cost paid by the Employer plus an annual payment of the unfunded liabilities over a 20 year open amortization period, (2) using the same assumptions as the baseline projections, but instead of projecting liabilities using the actuarially determined contribution rates, replacing that rate with the Board's Funding policy alternative, which states the Employer contribution rate will remain at 27.5% and does not change or decrease until the unfunded liabilities are paid off; (3), using the same assumptions as (2), but using a 28.5% rate which would not change or decrease until the unfunded liabilities are paid off.

Leslie pointed a key difference in these projections, indicating where the Plan's funded ratio for each option would stand in the year 2028: option (1) shows a 75.7% funded ratio with an unfunded liability of \$271 million (our current unfunded liability from 6/30/2014 is \$356.4m), option (2) is a 98.1% funded ratio with an unfunded liability of \$21.5 million and option (3) is a 101.0% funded ratio with an \$11.6 million surplus funding level.

The Board's funding policy revisions from the prior month draft were discussed by outside counsel Cassie Langford. The primary issue under consideration was language that would potentially cause an increase to the Employer recommended rate for future years, however, with the projection information provided by the actuary. The Board's question about increasing the Employer contribution rate was resolved after seeing that the addition of 1% to contribution rate and the additional money it would require did not make a meaningful difference. The actuarial projections indicated full funding for the Plan would change by only one year with the additional contributions.

The Board then decided to proceed with the motion on recommending an Employer rate and the final version of the Funding Policy will be brought back in final form at a future meeting. **Motion** to recommend the Employer Contribution Rate for FY 2016 at 27.5% made by Kevin Larson, 2nd by Silvia Amparano, **motion approved 5-0 (Robert Fleming and Karen Tenace excused)**

4. Board Governance Policies – Cassie Langford

Cassie Langford reviewed and discussed the revisions made to the Board Governance Policy taking into consideration the comments of the members at the October meeting. A few of the issues being addressed are in related to the board having authority to send a proxy in their place, the mentoring policy, the open meeting law summary and the conflict of interest policy. Both policies will be brought back to the board in December for final discussion/review.

5. Election Committee Board Report

- a. Recommended candidates for the TSRS Board Ballot
- b. Board acceptance of recommended candidates
- c. Timeline for Election
- d. Retiree Election Information

As chair of the Election Committee, Eric Kay provided the Nomination Committee report. There were three letters of interest submitted by active TSRS members: Michael Coffey, a Management Coordinator at Tucson Water; Jorge Hernandez, a Senior Accountant at Housing and Community Development; and Jorge Riveros, a Transportation Administrator. Eric formed a subcommittee for the purpose of reviewing the candidate's qualifications and making a recommendation to the Board. The subcommittee included, Eric Kay, Michael Jesse with PSPRS, and Jocelyn Maez, Lead HR Analyst.

The committee determined that all three candidates had the requisite experience and qualifications, and recommended all of them as qualified for placement on the TSRS Election Ballot. John O'Hare asked when the ballots are going out and coming back in; Michael Hermanson responded the ballots will be

mailed the first week of December with a return deadline of two weeks after the mail date. **A motion** was made by John O'Hare to approve all three candidates (Michael Coffey, Tucson Water; Jorge Hernandez, Housing and Community Development; and Jorge Riveros, Transportation) to be put on the TSRS Election Ballot, 2nd by Curry Hale, **motion approved 5-0 (Robert Fleming and Karen Tenace excused)**.

Following the vote, Mike Hermanson reported John O'Hare had been re-elected to the Board by majority vote from TSRS retirees for a 3 year term that will begin January 2015. This is John's 2nd election to the Board as a retiree; with his 4 terms as an active employee, this will be John's sixth term on the TSRS Board of Trustees.

C. Investment Activity Report

1. TSRS Portfolio composition, transactions and performance review for 10/31/14 ^{Note 1}

Allan Bentkowski provided a brief summary of investment performance highlights for the month ended October 31, 2014: the TSRS portfolio value was at \$730.7m as of 11/19/14, compared to a value of \$720 m in mid-October. As of October 31, 2014, the value of the portfolio was \$728.2m. For the month of October, the total fund returned 1.46% compared to the benchmark custom plan index at 1.43%. On a fiscal year to date basis, the total fund returned 0.53% through October 31st, compared to the custom plan index of 0.86%. The months of July and September were negative returns of -1.37% and -1.87%, respectively, so this year's investment returns have not started out very well. Finally, Allan reported that the fund moved \$2.3m out of Champlain's managed funds to pay the retirement benefits for the month of October, 2014.

2. Callan's quarterly review of TSRS investment manager performance for September 30, 2014

Paul Erlendson began this discussion by providing a 3rd quarter economic review, indicating the US GDP was up 3.5% in the 3rd quarter, following strong growth of 4.6% in the 2nd quarter; Core CPI increased over the 12 prior months by 1.7%; the unemployment rate declined to 5.9%. In terms of investment performance, the top performing capital market for the year through 10/31/14 was the S&P 500 at an 11.0% year to date, the lowest performing market was in EAFE returning a -2.8% year to date. Among the top economic sectors for the quarter ending 9/30 was Health Care, Information Technology and Telecommunications, worst was Utilities and Energy. Finally, Paul indicated in the international arena, the US dollar remains strong with the Euro down 7.7% and the pound down 5.2% for the quarter.

Next, Gordon Weightman had a few comments on the TSRS manager performance from the September quarter, stating that the 3rd quarter returns resulted in a negative \$10.4M investment return, summarizing the overall negative performance of the portfolio during the 3rd quarter of 2014. Paul Erlendson then outlined the plan for bringing in the three finalists to be interviewed for the Global ex-US Small Cap equity allocation recommended from Callan's asset liability study recommendations earlier in the year. The three finalists are MFS Investment Management, Brandes Investment Partners, L.P., and American Century Investment Management. These managers will be scheduled for a due diligence / finalist interview at the January 22nd, 2015 TSRS Board meeting. Following the Board's selection, Paul indicated a recommendation for utilizing a transition manager, indicating that a proposal would soon be provided to TSRS staff which is expected to cost \$45,000 to assist with moving assets from the current portfolio managers after selection of the Global ex-US Small cap Equity manager is confirmed.

D. Articles for Board Member Education / Discussion

1. SEC's Top Cop: More Muni Enforcement, Not Less (The Bond Buyer, Nov. 11, 2014)

2. Callan Investments Institute 35th National Conference, January 26-28, 2015

Michael Hermanson requests board members that are planning to attend the Callan conference should submit a travel order soon so we don't run up the costs for attending.

E. Call to Audience – None heard

F. Future Agenda Items

1. January 22, 2015 meeting – Due diligence finalist interviews of non-US Equity Small Cap Managers: MFS Investment Management, Brandes Investment Partners, L.P., and American Century Investment Management
2. Feb. 26, 2015 meeting – Causeway Capital Management – Annual Investment Manager Review; and review of Causeway’s International Opportunities strategy (due diligence review for the new investment mandate)

Allan Bentkowski asked the board to please plan on being present on these dates.

G. Adjournment

Motion to adjourn made by John O’Hare, **2nd** by Curry Hale, **motion approved 5-0** (Robert Fleming and Karen Tenace excused). Meeting adjourned at 10:28 AM

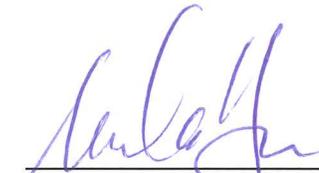
Approved:



Robert Fleming
Chairman of the Board

12/30/14

Date



Michael Hermanson
Plan Administrator

12.30.14

Date