

TUCSON SUPPLEMENTAL RETIREMENT SYSTEM

Investment Consultant RFP Review Committee Meeting

Meeting Minutes – March 14, 2013
Finance Conference Room, 5th Floor (West)
City Hall, 255 West Alameda
Tucson, Arizona 85701

Members Present: John O'Hare, Elected Retiree Representative
Kevin Larson, CM appointee
Karen Tenace, Elected Representative

Staff Present: Allan Bentkowski, Treasury Finance Manager
Melissa Waychoff, Administrative Assistant
Michael Hermanson, Pension Administrator
Michael Jesse, Lead Management Analyst

- A. Call to order – Meeting was called to order at 3:00PM by Allan Bentkowski.
- B. Establish consensus on the evaluation process, including the committee members' roles and responsibilities to establish comparisons with proposals received

Allan started off the conversation by indicating the goal for this Committee is to recommend the top three candidates for the TSRS Board's consideration. Kevin Larson suggested possibly bringing four, and based on his evaluations of the proposals submitted, he was prepared to eliminate either 3 or 4 at this time. A brief discussion ensued on the fee differences, with consensus landing on fees are not the biggest driver in this search. Except for one outlier, there is not a significant difference in fees with all the consultants. Callan Associates and Hewitt EnnisKnupp stand out to Kevin Larson as frontrunners. John O'Hare believes the City would like us to get a consultant that would be able to pick good investment manager candidates that could add value, like 1-2% over their benchmark. Karen Tenace suggested references might be a good tool for evaluation. If we can agree on a narrow field, then Allan Bentkowski can call a few references for each consultant listed in the proposals.

Staff will determine and ask each reference the exact same questions for consistency and fairness.

- C. Discuss Criteria Matrix and staff observations and rankings from preliminary review

Staff has reviewed the proposals and each individually judged all the consultants. All four of these landed in the best column, establishing a level of consensus (in no particular order): Wilshire Associates, Callan Associates, Hewitt EnnisKnupp, and Segal RogersCasey (despite client losses). John O'Hare thinks it would be best to look at consultants with experience in the \$500M to \$1B range. Allan Bentkowski read from matrix prepared by staff on the number of clients each consultant is currently serving based on a range of assets and the client losses experience for each consultant over the past 3 years.

John O'Hare would like to know if these consultants have different styles or if they are all the same. Allan Bentkowski responded that there are a number of factors which may influence or drive style such as, use of in-house proprietary systems to gather and analyze investment data versus primarily utilizing outside vendors for information, some use a combination of both. Also, styles can vary depending on the culture or the "bench strength" of the firm. Another factor could be the type of plan a

firm tends to focus on, is it primarily a Defined Contribution (DC) plan shop or a Defined Benefit (DB) plan shop? So, in general Allan believes each firm does vary in style to a certain degree. Kevin Larson asked a question if there is a critical difference between private and public DB plans, and also concerning how different would a DC consultant's approach be compared to a DB consultant. Allan did not think there were any significant differences (as far as the consultant's approach) between public and private DB plans except that private (corporate) plans are governed by ERISA rules which may add more complexity to them. Michael Jesse stated that DC vs. DB plans have very different needs, so it's important that we focus on a consultant with a DB book of business and experience.

Karen Tenace approached this from a view toward eliminating those consultants she did not feel were a good match for TSRS, but did not actually rate the consultants. Karen Tenace believes Callan and Hewitt would be in the first tier and Segal and Wilshire would be in the second tier. John O'Hare would go with Segal, Wilshire, Callan, and RV Kuhns & Associates. Allan Bentkowski stated that RV Kuhns & Associates' is the current investment consultant for the Phoenix pension plan, and that the Phoenix plan returns have tended to lag those of TSRS. Staff believes that the Hyas Group is great at picking DC managers/funds, but do not have a lot of experience with DB managers.

Best:

Hewitt EnnisKnupp
Callan Associates
Wilshire Associates
Segal RogersCasey

Middle:

RV Kuhns & Associates
Hyas Group

Bottom:

Becker, Burke Associates
Milliman
Innovest Portfolio Solutions

It was decided by Committee members to eliminate the bottom three and keep the top four and middle two for further evaluation. Allan Bentkowski encouraged the Committee to determine finalists for interviews in time for the April 25, 2013 TSRS Board meeting.

D. Discuss evaluation criteria provided, ratings and weights to Revised guide sheet provided

Mike Hermanson suggested thinking through another filter for evaluating these finalists, perhaps we could outline questions for the six remaining to help decide which firms will be eliminated for interviews. Kevin Larson is fine with it, if we narrow it down to only the consultants in the Best category. Michael Hermanson would like to give them one more opportunity to respond to written questions and then when they come for an interview, "you can ask them anything." We could ask the Best and Middle consultants another round of questions and based on those answers, we should be able to rank and decide on the three to four finalists for interviews. Kevin Larson suggested it would also be a good idea to contact the Best and Middle group's references. Everyone agrees to eliminate the consultants in the Bottom group.

E. Establish consensus for time line of the evaluation process and determine future meeting dates

Staff will come up with a few more good questions to ask the six consultants and we will meet again in a few weeks to review responses (Michael Hermanson). John O'Hare suggested getting records of their clients' earnings. Michael Hermanson suggested we get the questions out and ask them to respond no

later than April 1st. Then, the Committee should be able to rank and take a vote at the next meeting in early April. Hopefully, the three to four we choose could come see us in 3 weeks (at the regular TSRS Board meeting). Kevin Larson added, when the questions are sent, they should be advised to be prepared to attend a finalist interview on April 25th, so that they have enough time to plan their appearance.

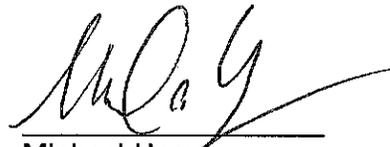
Allan Bentkowski will focus in on the top six consultants and call on two references for each one. Kevin thinks customer service should be in the questions and Michael Hermanson would like to know what makes their process better than anyone else's. John O'Hare would like to ask them about their asset allocation. Michael Hermanson suggested we could show them ours and ask how they would improve it. Karen Tenace suggested we could ask them about training. Kevin Larson said we should also ask who our account manager or point person would be.

We will plan to meet again April 9, 2013 at 3:00PM.

F. Adjournment at 3:55PM.


Robert Fleming
Chairman of the Board

10/3/13
Date


Michael Hermanson
Plan Administrator

09.26.13
Date