

**TUCSON SUPPLEMENTAL RETIREMENT SYSTEM
BOARD OF TRUSTEES
Meeting Minutes**

DATE: Thursday, March 28th, 2013
TIME: 8:30 a.m.
PLACE: Finance Conference Room, 5th floor
City Hall, 255 West Alameda
Tucson, Arizona 85701

Members Present: Robert Fleming, Chairman
Brandy Kadous, Elected Representative
Karen Tenace, Elected Representative
Kelly Gottschalk, CFO and Assistant City Manager (late)
Kevin Larson, CM Appointee

Staff Present: Allan Bentkowski, Treasury Finance Manager
Dave Deibel, Deputy City Attorney
Melissa Waychoff, Administrative Assistant
Michael Hermanson, Pension Administrator
Michael Jesse, Lead Management Analyst
Curry Hale, Designee for Human Resources Director

Guests: Jenefer Carlin, Retiree Representative
Jean Wilkins, Retiree Representative

Absent/Excused: John O'Hare, Elected Retiree Representative
Lani Simmons, Human Resources Director

A. Call to order by Chairman Fleming at 8:30 AM.

B. Consent Agenda

1. Approval of February 28th, 2013 Board meeting minutes
2. Retirement ratifications for the month of March 2013
3. February 2013 TSRS expenses

Motion to approve consent agenda made by Brandy Kadous, 2nd by Karen Tenace, motion approved 5-0 (John O'Hare absent, Kelly Gottschalk late).

C. Disability Applications *

1. Michael Wilhite

Motion to approve Michael Wilhite disability application made by Brandy Kadous, 2nd made by Kevin Larson, motion passed 5-0 (John O'Hare absent, Kelly Gottschalk late).

2. Jorge Salgado

Motion to approve Jorge Salgado disability application made by Brandy Kadous, 2nd made by Curry Hale, motion passed 5-0 (John O'Hare absent, Kelly Gottschalk late).

D. Administrative Discussions

1. Proposed FY14 budget for TSRS

*Kelly Gottschalk arrived at 8:35 AM.

The information provided matches the amounts provided to the Budget Director when these amounts were requested in February. Recommended changes to member and employer contribution rates approved by

Mayor and Council on March 27th will need to be cross-checked against the amounts budget will be submitting to Mayor and Council in April.

Michael Hermanson forecasted what he believes will be the payments to the retired members in total for the year. Refunds were slightly up because we were trending a lot more refunds. Personal services went down \$10K. Fringe benefits went up \$7K. There were increased charges from Treasury Services because there is now a Treasury Administrator, there was a reallocation. Computer software maintenance, we renewed our contract with GRS for another 5 years and the cost went down. Insurance went up 15% for this year. The rest is the same as last year. The Board indicated a preference to vote on the budget presented to Mayor and Council; as a result the item was table until the April meeting.

Brandy Kadous motioned we table voting on this budget until next month's meeting, 2nd by Karen Tenace, motion passed 6-0 (John O'Hare absent).

2. Report on March 27th Mayor and Council Action Item to consider January 24, 2013 TSRS Board recommendations related to amortization period and FY14 pension contribution rates

Mike Hermanson reported: in a 5-2 vote, Mayor & Council approved the Board's recommendation to change the definitions for how member contribution rates are determined using the Normal cost of the member benefit Tier as the benchmark for establishing rates for members hired after July 1, 2006. Adoption of this method reduces the rates that are currently burdening variable rate members paying 13.76%, and avoids requiring them to pay a rising level contribution, projected at 14.82% for FY14.

Reviewing commentary from the Mayor and Council, Council member Paul Cunningham indicated disbelief to our existing assumed investment return at 7.75%. Chairman Fleming expressed his interest in explaining to Council member Cunningham what would happen if we had a more conservative assumption, such as 5%. Steve Kozachik indicated he was opposed to setting the contribution rate at the minimum end of the range at 50% of normal costs, he preferred that it be 65%.

All council members supported the idea for TSRS to promote an employer funding that is level with current FY13 funding and expressed active support for continuing that approach, even if funding requirements are reduced in future years because doing so will improve the funded ratio of the plan quicker. Tier I employees (hired on/after July 1, 2006 and before July 1, 2011) will pay 6.715% into the pension plan. Tier II, (those hired July 1, 2011 and later) will pay 5.06% into the pension plan; reflecting that the Normal Cost for Tier II is lower because of the reduced benefit formula.

3. Intern from the Eller School of Management at the U of A

John O'Hare is absent today, since there is no information to be presented; the Chairman asked for the item to be removed from the agenda.

E. Investment Activity Report Administrative Discussions

1. Portfolio composition, transactions and performance review

Allan Bentkowski indicated the portfolio balance at February 28, 2013 was \$625.7M vs. \$625.5M as of January 31, 2013 and \$631.5M yesterday on March 27, 2013. All managers and asset classes are within their allocation targets and ranges. \$1.8M was moved out of BlackRock Value account to provide funding for monthly pension payroll. Allan Bentkowski said he will continue to monitor cash flow closely towards the end of the year to have enough cash on hand to pay benefits and keep as much invested as possible.

Calendar Year to Date Performance Summary

For the month of February 2013, the portfolio returned 0.32% vs. the Custom Plan Index benchmark at 0.63%. February was rather flat compared to January. SteelRiver posted a -9.46% return in February as was Macquarie at -3.64%. Macquarie changes on a monthly basis and is valued in Euros so the returns will fluctuate due to foreign exchange rates. In this case the dollar strengthened against the Euro in February.

The TSRS portfolio returns for calendar year to date were at 3.72% vs. 3.66% for the Custom Plan Index. The total fixed return was at 0.29% vs. the Barclays Aggregate at -0.20%. Total Equities returned 6.29% vs. 6.14% for the Equity Composite. No benchmark updates for Real Estate at this point, however, on a YTD basis, Real Estate returns were 2.97% and total Infrastructure was at -4.82%.

Fiscal Year to Date Performance Summary

Total portfolio returns FYTD basis was 10.96% vs. 9.91% for the Custom Plan Index; Total fixed was at 4.72% vs. 1.61% for Barclays Aggregate; Total equities returned 15.05% vs. 14.99% for the Equity Composite; Champlain lagged their benchmark at 15.51% vs. 17.68% for the Russell Midcap; Aberdeen at 13.41% vs. 17.07% for the MSCI All Country World ex-US; and Causeway at 17.56% vs. 18.82 for the MSCI EAFE, lagged their respective indexes on the international side; Real Estate returns are at 8.87% vs. the NCREIF at 5.19% for two quarters ending 9/30 and 12/31/12 respectively, so it is not an exact comparison at this time. Total Infrastructure returns are 1.77% vs. 3.84% for the CPI+4%.

2. BNY Mellon Trust/Custodial Fee Update

Allan indicated the Trust is scheduled for fee renewals with Mellon Custodial agreements and he has been working with the firm to determine the new fee schedule. Because the agreement is open-ended, Mellon updates fees periodically. During the last fiscal year, TSRS paid them \$264K for custodial services. Allan Bentkowski is confirming his analysis and will present to the Board when ready. The last time he checked with Greenwich Associates (a pension survey firm), Mellon was right in the middle of the pack.

3. Amendment to BNY Mellon Securities Lending Agreement

Related to the above, Allan stated he is analyzing an amendment provided to TSRS. TSRS would not see any changes to investing collateral funds. More information on this in the next month as the analysis gets completed.

4. Update on Committee Evaluations of Investment Consultant*

The next scheduled meeting for the committee will be on April 9th with a goal to select 3-5 finalists to present at the next Board meeting. Staff designed a series of questions to be sent to the currently remaining candidates. After the next meeting, the Committee should be in a position to select finalists to be interviewed at the next TSRS Board meeting. Brandy Kadous indicated he would really like to be present for that, but he will be absent April 25th. Staff requested direction from the Board, asking whether it might be appropriate to schedule a special meeting to focus only on the investment consultant finalists and also permit Brandy's attendance. The consensus of the Board was to request best dates from the Board and select either April 29th or 30th for the special meeting.

F. Articles for Board Member Education / Discussion

1. State and Local Pension Costs: Pre-Crisis, Post-Crisis, and Post-Reform (Center for Retirement Research at Boston College, Feb. 2013)
2. Made in Wisconsin (March 2013 Institutional Investor)

Kelly Gottschalk commented, indicating that she had been asked to speak at an investor conference last week and the City of Tucson / TSRS pension plan was the smallest entity among some very large State Plans. Every presenter talked about pension funding issues; and the majority of questions from the audience were about pension issues, so everyone is talking about municipal pensions and concerned that funded ratios may affect their bond ratings/ or bond issuance costs.

On the legal front, a Maricopa County Superior Court ruled it was unconstitutional that rates for judges that are vested in the plan could not be increased and COLA benefits could not be decreased. So, for those not vested, they could make changes. The ruling is consistent with the advice the City Attorney's office has given to the TSRS Board of Trustees during previous discussions

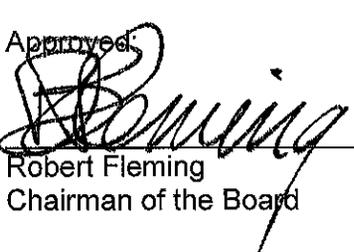
G. Future Agenda Items

1. Investment Consultant Finalist Recommended (April meeting)
2. 2014 Budget review (April meeting)
3. Follow-up on recommendations for improving the funded status of the plan
4. Discuss benchmarks - actively managed funds, Pyramis Manager Review and Hewitt Quarterly Investment Review (May meeting)
5. Reconstituting advisory committee in City code (October meeting)
6. Mellon Custodial Services – fee changes and service agreements
7. Special Board Meeting for April 30th, 2013 – Investment Consultant Interviews

H. Call to Audience – none heard

I. Adjournment - **Chairman Fleming stated we are adjourned at 9:20 AM.**

Approved

 4/25/13  04.25.13

Robert Fleming
Chairman of the Board

Date

Michael Hermanson
Plan Administrator

Date