

TUCSON SUPPLEMENTAL RETIREMENT SYSTEM BOARD OF TRUSTEES

Meeting Minutes -Thursday, April 25th, 2013
City Manager's Conference Room, 1st floor
City Hall, 255 West Alameda
Tucson, Arizona 85701

Members Present: Robert Fleming, Chairman
Lani Simmons, Human Resources Director
Karen Tenace, Elected Representative
Kelly Gottschalk, CFO and Assistant City Manager
John O'Hare, Elected Retiree Representative

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
Sylvia Navarro, Treasury Administrator

Guests: Jenefer Carlin, Retiree Representative

Absent/Excused: Brandy Kadous, Elected Representative
Kevin Larson, CM Appointee

- A. Call to order - Chairman Fleming called the meeting to order at 8:30AM.
- B. Consent Agenda
1. Approval of March 28th, 2013 Board meeting minutes
 2. Retirement ratifications for the month of April 2013
 3. March 2013 TSRS expenses

Motion to approve consent agenda made **by Karen Tenace, 2nd by Kelly Gottschalk, motion approved 5-0** (Kevin Larson & Brandy Kadous absent).

- C. Disability Applications
1. Patricia Tolle

Motion to enter Executive Session at 8:32AM made **by Karen Tenace, 2nd by Kelly Gottschalk, motion passed 5-0** (Kevin Larson & Brandy Kadous absent).

Motion to exit Executive Session at 8:48 AM made **by Kelly Gottschalk, 2nd by John O'Hare, motion passed 5-0** (Kevin Larson & Brandy Kadous absent).

Motion to ask Dr. Krasner to confer with personal physician regarding Patricia Tolle's disability application and bring this application to the next Board meeting made **by Kelly Gottschalk, 2nd made by Lani Simmons, motion passed 5-0** (Kevin Larson & Brandy Kadous absent).

- D. Administrative Discussions
1. Proposed FY14 budget for TSRS

Michael Hermanson stated there is nothing different with this proposed budget from the proposed budget presented at the March 2013 Board Meeting, he confirmed that all amounts matched the Budget already submitted for TSRS earlier this year. **Motion** to approve FY14 budget for TSRS made **by Karen Tenace, 2nd by Kelly Gottschalk, motion approved 5-0** (Kevin Larson & Brandy Kadous absent).

2. Actuarial projections of TSRS funded ratio's using Level employer contributions

Michael Hermanson stated this is the level employer contribution rate projection the Board has been discussing; he requested a calculation from the actuary so that we would know what the baseline rate (from the FY12 valuation) is for a level funding concept. The actuary's analysis indicates TSRS would be fully funded in 20 years if Employer funding rates were level for all categories of membership (Tier I fixed and Tiers I and II variable) at 28.77% through 2037, assuming that the rate of returns on the portfolio remain at 7.75% annually. Adopting this approach would mean that the Employer would be funding at a higher rate than what has been adopted for FY14. The Board's proposal adopted by Mayor and Council in February included a promise the Board would continue to evaluate strategies to improve the Plan, and a level Employer funding approach illustrated from this analysis is one that has promise – it helps the Plan get fully funded and stabilizes the employer funding rates. Mike added that this concept should continue to be evaluated and will be revisited at the October Board meeting, so that the Board can consider strategies to be recommended to Mayor and Council for the FY15 budget. John O'Hare asked if it were possible to bind future Mayor and Council decisions with that recommendation, since the subject has been broached, but the Board recognized future Council decisions would not be obligated by this Council action. Kelly Gottschalk stated the City is committed to getting the plan 100% fully funded as quickly as possible.

E. Investment Activity Report Administrative Discussions

1. Portfolio composition, transactions and performance review

Allan Bentkowski indicated the portfolio balance on March 31, 2013 was \$635.9M vs. \$625.7M on February 28, 2013 and \$637.3M as of April 24, 2013 yesterday. All managers and asset classes are within their allocation targets and ranges. During the month of March, \$1.8M was moved from the Alliance account to fund the cash flow shortfall for the monthly pension payroll.

Calendar Year to Date Performance Summary

For the month of March 2013, the total portfolio return posted a 1.91% gain vs. the Custom Plan Index benchmark at 1.87%. The Fixed asset class posted gains of 0.2% vs. the Barclays Aggregate at 0.08%; Equities posted gains of 3.01% vs. 3.1% for the Equity Composite; the Real Estate asset class posted a 0.87% gain, but no monthly benchmark exist for Real Estate (quarterly only). For the month of March, the Infrastructure class posted at -0.70% loss vs. the CPI+4% benchmark earning a 0.59% return. The total TSRS portfolio returns on a calendar year to date basis posted a 5.70% gain vs. 5.60% for the Custom Plan Index.

Fiscal Year to Date Performance Summary

Total portfolio returns on a fiscal YTD basis posted a 13.08% gain vs. 11.97% for the Custom Plan Index; Total Fixed assets returned 4.93% vs. 1.69% for Barclays Aggregate; Total Equities returned 18.51% vs. 18.55% for the Equity Composite. All Equity managers met or beat their respective benchmarks except Champlain, lagging their benchmark with a 19.83% gain vs. 22.68% for the Russell Midcap; Aberdeen at 14.36% vs. 17.3% for the MSCI All Country World ex-US; and Causeway at 17.95% vs. 19.79% for the MSCI EAFE. The Real Estate class posted gains of 9.82% thru March 31st, but the NCREIF benchmark returns of 5.19% are for two quarters ending 12/31/12, so it is not an exact comparison at this time. Total Infrastructure returns are also lagging their benchmark with a gain of 1.06% vs. 4.45% for the CPI+4%.

Michael Hermanson asked if the market was returning to sanity after a fictitious Tweet reporting an attack on the White House caused the financial markets took a dive. Allan Bentkowski stated the markets had returned to normal. Karen Tenace asked what we need to not be taking \$1.8M out every month to support our retiree pensions. Michael Hermanson stated this is a common symptom of a mature plan, as the number of active employee's contributing is approximately equal to the number retirees taking money out - right now, we are at ~1988 employee member levels at about 2700 and the same number of retirees receiving benefits. Kelly Gottschalk does not think payroll will increase, if anything, she sees our workforce shrinking.

2. BNY Mellon Trust/Custodial Fee Update

Allan Bentkowski stated there is nothing new to report at this point, the ball is in BNY Mellon's court.

3. Amendment to BNY Mellon Securities Lending Agreement

There is an amendment which was reviewed by Allan Bentkowski, Dave Deibel, and our consultant. As a historical background for newer board members, the Plan took a loss of about \$189K during 2008 in the collateral pool account. That loss has since been paid back and the Plan has received a check for \$53K as a settlement from the Class Action lawsuit. The amendment spells out the actual investments in the account. Smaller participating plans will be moved into one pooled account with the investments. The pooled account is run very conservatively, like a money market fund; but is not registered as a money market fund. Chairman Fleming will sign it unless someone wants to move otherwise.

4. Update on Committee Evaluations of Investment Consultant*

We have packets for Board members to pick up on their way out today for next Tuesday's scheduled Special Board meeting. This includes a generic agenda indicating we are interviewing candidates, but because this information is publicly available, does not indicate names of candidates. The structure of the meeting includes the Chairman asking all questions, allowing 30 minutes for that. The questions posed will be the same for all candidates and there will be a summary question at the end allowing the candidate to pitch the firm for up to 15 minutes for a total of 45 minutes each. The packet also includes the minutes from the two sub-committee meetings, a fee schedule comparison, the questions we asked these firms initially, reference questions with answers and rates of return for two of their institutional client on a one, three, and five year period. One consultant did not respond to the references and they gave a reason.

F. Articles for Board Member Education / Discussion

1. Six questions to ask your investment consultant: Part I, Part II (*BenefitsCanada* Feb. 21, April 4, 2012)
2. Delegation of Duty: Sponsors must have a prudent process in place when selecting and monitoring a 3(21) or 3(38) fiduciary (*Plan Sponsor* January, 2013)

Michael Hermanson pointed out the delegation of duty article to help the Board understand the difference between 3(38) and 3(21) Fiduciaries because one of the investment consultant prospects responded to one of the committee's questions by stating they were not this type of consultant and lacked the discretionary authority to manage investments.

3. Selection of Investment Advisors for Pension Fund Assets (*GFOA Advisory – CORBA*)

There is good info in this article on selecting investment advisors.

G. Future Agenda Items

1. April 30th, Special Meeting to Interview Investment Consultant Finalists
2. Follow-up on recommendations for improving the funded status of the plan
3. Discuss benchmarks - actively managed funds, Pyramis Manager Review and Hewitt Quarterly Investment Review (for 03/31/13) - (May meeting)
4. Reconstituting advisory committee in City code (October meeting)

H. Call to Audience – none heard.

I. Adjournment - **Chairman Fleming stated we are adjourned at 9:25 AM.**


Robert Fleming
Chairman of the Board

6/3/13
Date


Michael Hermanson,
Plan Administrator

06.11.13
Date