

# TUCSON SUPPLEMENTAL RETIREMENT SYSTEM BOARD OF TRUSTEES

Meeting Minutes -Thursday, May 30<sup>th</sup>, 2013  
Finance Conference Room, 5<sup>th</sup> Floor (West)  
City Hall, 255 West Alameda  
Tucson, Arizona 85701

- Members Present: Robert Fleming, Chairman  
Lani Simmons, Human Resources Director  
John O'Hare, Elected Retiree Representative  
Brandy Kadous, Elected Representative  
Kevin Larson, CM Appointee (late arrival)
- 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  
Silvia Navarro, Treasury Administrator  
Silvia Amparano, CFO Designee (late arrival)
- Guests: Jenefer Carlin, Retiree Representative  
Rob Van Den Brink, Hewitt Ennisknupp  
Scott Coopridger, Hewitt Ennisknupp
- Absent/Excused: Karen Tenace, Elected Representative  
Kelly Gottschalk, CFO and Assistant City Manager

- A. Call to order by Chairman Fleming at 8:30AM.
- B. Consent Agenda
1. Approval of April 25<sup>th</sup>, 2013 Board Meeting Minutes
  2. Retirement ratifications for the month of May 2013
  3. TSRS Financial Statements for March 31, 2013
  4. April 2013 TSRS expenses

**Motion to approve consent agenda made by Brandy Kadous, 2nd by Lani Simmons, motion approved 4-0** (Karen Tenace and Kelly Gottschalk absent, Kevin Larson late-arrived at 8:35AM).

- C. Administrative
1. TSRS Elected Representative Planning

Mike Hermanson indicated that Brandy Kadous is preparing to leave his position on the Board in the coming months. Brandy has requested the new Board member be in place for the October board retreat in order to take advantage of the planning and training discussions that occur during that meeting. The solicitation included in your board packets for today's meeting is a description of what the Board member background should be and what the time commitments are. This solicitation is planned to be mailed on July 12, 2013. The normal election process includes naming the outgoing board member as the Election committee chair, and will require the Chair to submit recommended candidates to the TSRS Board at the September 26 Board meeting.

#### D. Investment Activity Report Administrative Discussions

##### 1. Hewitt Ennisknupp - March 2013 (Q1) Prime Report – Rob Van Den Brink, Scott Coopriider

This being the last meeting with Hewitt, Rob Van Den Brink and Scott Coopriider began by thanking the TSRS Board for the long working relationship they had. Offering a high level view, Rob stated the market has performed very well in this quarter, posting significant gains on the S&P 500; developed markets were not quite as strong; bonds are flat, with high yield continuing to do relatively well; global liquidity provided by central banks is fueling the economy; emerging markets need to get going, a little soft.

Individual managers: Alliance S & P 500 was up 10.6% for the quarter, even with Apple holdings being down; PIMCO StocksPLUS has been a great large cap portfolio for us, PIMCO is becoming much more conservative than they have been in the past; they are thinking rates are going to go up, so we shouldn't expect those results going forward; BlackRock Russell 1000 has been right in line with PIMCO StocksPLUS for performance; there has been a slight underperformance over the last year and during the quarter for T. Rowe Price Large Cap Growth; however, their results are still ahead of the benchmark even though they have lagged over the last year.

Champlain Mid Cap has lagged a bit over the last year, but in the first quarter they have kept up with the benchmark; Pyramis Small Cap is much more diversified and has posted very strong results. Causeway has not kept up in the first quarter, but has been ahead since inception. Aberdeen has been down as of late, but there have been positive inflows into their products. Both Aberdeen and Causeway are buy-rated. None of the equity managers are on the watch list. Real Estate: LaSalle is in liquidation and has had a disappointing run; the core strategy managed by JP Morgan continues to plug along; infrastructure investments; both are showing reasonable results with SteelRiver picking up cash flows, Macquarie should have cash flows picking up soon also.

##### 2. Annual manager review - Pyramis – Mark Botello, Ethan Hugo

Pyramis has worked with us for 19 years and the 15 year anniversary of this portfolio is approaching. Going into 2012, consensus thought was the US GDP would grow up to 3%, corporate earnings would grow into double digits. US GDP only grew half that, Europe got worse, China did not get better, corporate earnings were in the single digits. Large Cap and Small Cap growth were both up last year and continue going up this year. This shows how hard it is to make predictions. You could not have predicted that kind of equity return. Energy was down, tech underperformed and those could not have been predicted. This is the reason there is a need for a balanced portfolio. Ethan Hugo's goal is to keep the portfolio as balanced as possible. The portfolio has been run with relatively low tracking error. The liquidity of the market over the past several years has been unprecedented. In a small sector, Energy (as the worst performer) still generated alpha even in places where the benchmark return is not attractive. Pyramis is below median in tracking error. Their volatility relative to the index tends to be lower than the median manager. Pyramis tends to win through batting average. Just because something has a lot of upside, does not mean you have to buy a lot of it. The top three contributors were all modest. Pyramis manages risk so they do not blow up the whole portfolio.

##### 3. Portfolio composition, transactions and performance review

During the month of April we moved \$1.4M out of BlackRock Value into the Investment Pool account to pay retirement benefits. The portfolio value on April 30, 2013 was \$644.4M compared to the March ending balance at \$635.9M; the latest value on May 29, 2013 is currently at \$650M.

For Fiscal Year to Date the Total Fund returns were 14.8% vs. the Custom Plan Index of 13.95%.

#### E. Articles for Board Member Education / Discussion

1. Rising Arizona Public Safety Pensions Strain Budgets (*Arizona Republic* - May 8, 2013)
2. Phoenix Leaders See Pension Fixed Differently (*Arizona Republic* – May 8, 2013)
3. Arizona's Pension Challenges: The Need for an Affordable, Secure, and Sustainable Retirement Plan (*The Pew Center on the States* – November, 2012)

4. Ranking Asset Managers – A Retirement Security Report on Money Managers for Trustees  
(American Federation of Teachers – April 26, 2013)

Lani Simmons indicated there's been a movement aimed at taking down defined benefit plans. It started in California and is moving across the country. Yesterday, the City Clerk accepted filing of petition effort to terminate TSRS when it has no more participants or liabilities. The petition effort will be working to gather about 13,000 valid signatures by July 5, 2013. Their solution calls for replacing the TSRS Defined Benefit plan with a 401(k) like plan for new hires. The language found in the Act filed in Tucson has been duplicated in several states across the nation. Lani believes they may have made a mistake and meant to take some action against PSPRS and not TSRS. Mike Hermanson will send a copy to all the Board members. It is a proposed amendment. One component includes employees opting out of the plan. It does not address the issue of how to manage benefits already bethose participants that are receiving retirement benefits.

F. Future Agenda Items

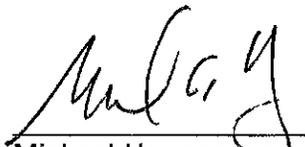
1. June 27<sup>th</sup> – Paul Erlendson and Gordon Weightman – Callan Associates
2. Approval of April 30<sup>th</sup>, 2013 Special Board Meeting Minutes
3. Reconstituting advisory committee in City Code (October meeting)
4. Actuary's recommendations for improving the funded status of the Plan (October meeting)

G. Call to Audience – none heard

H. Adjournment - **Chairman Fleming stated we are adjourned at 9:50AM.**

  
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Robert Fleming  
Chairman of the Board

6/27/13  
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Date

  
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Michael Hermanson  
Plan Administrator

06-27-13  
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Date

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