

TUCSON SUPPLEMENTAL RETIREMENT SYSTEM BOARD OF TRUSTEES

Regular Meeting Minutes – September 26, 2013
Finance Department Conference Room, 5th floor East
City Hall, 255 West Alameda
Tucson, Arizona 85701

Members Present: Brandy Kadous, Elected Representative
Lani Simmons, Human Resources Director
John O'Hare, Elected Retiree Representative
Silvia Amparano, Director of Finance
Karen Tenace, Elected Representative (late)

Staff Present: Dave Deibel, Deputy City Attorney
Melissa Waychoff, Administrative Assistant
Michael Hermanson, Pension Administrator
Allan Bentkowski, Treasury Finance Manager
Silvia Navarro, Treasury Administrator
Michael Jesse, Lead Management Analyst
Kelly Gottschalk, CFO, Assistant City Manager

Guests: Jenefer Carlin, Retiree Representative
Michaela Slattery, Retiree
Margarita Bernal, Retiree
Reed Palmer, Retiree
Barbara Terry Quinn, Retiree
Cindy Jansen, Retiree
Estrella Vasquez, Risk Management
Malena Carreon, Human Resources

Absent/Excused: Kevin Larson, CM appointee
Robert Fleming, Chairman

A. Call to order – Acting Chairman Kadous called the meeting to order at 8:31AM.

B. Consent Agenda

1. Approval of Aug 29th; Sept. 11th; Board Meeting Minutes
2. Retirement ratifications for the month of September 2013
3. August 2013 TSRS expenses

Motion to approve consent agenda made by Silvia Amparano, 2nd by Lani Simmons, motion approved 4-0 (Kevin Larson absent, Chairman Fleming absent, Karen Tenace late).

C. Administrative Discussions

1. Sustainable Retirement Benefits Act

The Arizona Supreme Court ordered that the petition for review be continued. Meaning; it could either toss it out in its entirety or order it to be on a ballot in the future. The Board has an opportunity to educate the community on the value of the City's current defined benefit pension plan. The Board also has an opportunity to plan for the possibility of this Act being on the ballot next year. From an economic consideration, 90% of our TSRS retirees remain in the community, which means that about \$57M in retiree payroll is spent in the local economy; it's like having a large employer support our community. Losing the TSRS benefit structure for future employees will also impact the ability to hire employees in the future, when all they have to do is walk across the street to get a better benefit package. Karen Tenace asked if the Pension Education Committee would continue. Michael Hermanson indicated that a disconnect appeared between the goals of the Pension Education Committee and that of the TSRS Board of Trustees, and would like to see this addressed. There is no longer a restriction for conflict of interest since it is not on the Ballot, so the Board and the Pension

Education Committee now has the freedom to speak and educate people on issues. Lani Simmons stated there continues to be some confusion about the City's two different plans, some employees think it is one plan and everyone needs to be educated on the differences between TSRS and PSPRS plans. Silvia Amparano suggested we reach out to the people writing this Ballot so that if they pursue it next year, maybe the Ballot can be clearer instead of so vague.

Acting Chairman Kadous suggested the Board consider a subcommittee and marry it with the Pension Education Committee. Karen Tenace volunteered to be on the subcommittee. Karen stated the subcommittee would need to look at what other cities have done for some ideas for education. Lani Simmons suggested retirees could join the subcommittee as well. John O'Hare pointed out Brandy Kadous will soon be a retiree. Lani Simmons was very happy when we received the notification that the Ballot would not go forward, but she realized we need to plan more education.

2. Candidate Recommendations from Election Committee

Election Committee Chairman Brandy Kadous reported that two candidates had indicated an interest and were found by the committee to have the necessary background and education requirements. On behalf of the election subcommittee members that included Kelly Gottschalk, Karen Tenace and Brandy, the Chairman recommended Linus Kafka and Eric Kay for the Board's approval. **Motion to approve Eric Kay and Linus Kafka to be put on the Ballot for election made by John O'Hare, 2nd by Silvia Amparano, motion approved 5-0 (Kevin Larson absent, Chairman Fleming absent).**

3. TSRS Pension Obligation Bond - Perspectives from a Bond Underwriter

Michael Hermanson stated this educational topic would be re-scheduled to a future agenda. Silvia Amparano stated they were looking into candidates, but have stepped back and are looking into the legality of this option. If the option is not feasible, we might just bring someone in to speak and educate the Board about how this is done, and will be a tentative topic for the Board retreat on November 7th.

4. November 7 Board Retreat

It will have the usual items. Callan and J.P. Morgan will be presenting. Cassie Langford will present. We may have a disability retirement application. We will talk about the pension education campaign and the CAFR. Callan will be doing an asset liability study and will present crossover issues about investment policies and actuarial funding assumptions.

5. Callan University

Callan College has education forums for new Board members who may not have investment policy experience. It is at the end of October, so it's not the best timing. Callan presents a lot of introduction series presentations at their annual client conference in January, and would be very helpful, perhaps the new Board member would be interested in attending.

D. Investment Activity Report Administrative Discussions

1. Portfolio composition, transactions and performance review

As of August 31, 2013 the total portfolio value was \$649.6M, compared to \$660.9M at July 31, 2013 and \$666.9M at September 25, 2013. The portfolio value hit a fiscal year 2014 high on September 19, 2013 at \$669.4M and individual investment manager account values have reflected a lot of market fluctuation over the past six weeks. Current market concerns and worries over the federal government shutdown, US debt ceiling limits and the ongoing conflict in Syria continue.

Asset classes and managers are within allocation target ranges except for Macquarie Infrastructure fund, actual allocation at August 31, 2013 was 0.1% over the maximum allocation range limit. During the month of August, \$1.6M was transferred out from BlackRock Value (equity) account to the internal fund 072 Investment pool account to meet pension payment (retiree) obligations for the month.

Calendar YTD

Calendar year to date investment returns for the month of August 2013: total fund returns were at -1.47% vs. -1.68% for Custom Plan Index; for the Calendar year through August 31, 2013 the Total fund returned 9.13% vs. 8.01% for Custom Plan Index; total Fixed Income returned -3.17% vs. -2.81% for the benchmark (Barclays Aggregate); Total Equities returned 15.52% vs. 14.19% for the Equity Composite index. Total Real Estate returned 10.84% (no benchmark comparison until after the end of this quarter).

Total Infrastructure returned -1.69% vs. 4.57% for the benchmark of CPI+4%.

Fiscal YTD (returns through August 31, 2013)

The Total fund investment returns were 2.19% vs. 1.47% for the benchmark; total Fixed Income returned - 0.36% vs. -0.37% for the benchmark; total Equities returned 3.18% vs. 2.72% for the benchmark; total Real Estate returned 1.98% (no benchmark comparison available until after the end of this quarter); total Infrastructure returned 2.12% vs. 0.82% for the benchmark.

Also, Allan wanted to apprise the Board on fee schedule changes associated with rate renewals on the BNY Mellon custody agreement and ask for approval. After negotiating several amendments that reeducated the fee schedule, Callan recommended eliminating an administrative fee of two basis points that should save the plan quite a bit, so they are earning their money. Dave Deibel has already reviewed the amendment language and has no issues. Michael Hermanson stated that Callan is pretty outreaching and has already contacted him to discuss the asset liability study. John O'Hare stated the Board received nice thank you notes from Callan and they plan to be here for the Board Retreat on November 7, 2013 and also the November 19, 2013 Board Meeting to continue discussing plans. **Motion to adopt the BNY Mellon amendment made by John O'Hare, 2nd by Lani Simmons, motion approved 5-0.**

E. Articles for Board Member Education / Discussion

1. Supreme Court of Arizona – Order filed 9/16/2013

F. Future Agenda Items

1. Reconstituting advisory committee in City Code (November Board Retreat)
2. Actuary's recommendations for improving the funded status of the Plan (November Board Retreat)

Michael Hermanson reminded everyone October 25 will be a meeting at 8:30 AM instead of 9:00 AM and it will be solely to approve the consent agenda and ratify retirements. Kevin Larson and Silvia Amparano are both available by phone. Michael Hermanson will ask Dave Deibel about meeting telephonically.

G. Call to Audience

Retiree Reed Palmer stated the retirees are worried about the Prop 201 going back on the Ballot next year and wanted to know how many education committees there are. Acting Chairman Kadous responded the City has one and the Board has one that should work with the City's. Reed also requested a meeting with the retiree group to share information from the education committee. In the future, the Board and the Committee should work together. Retiree Margarita Bernal was very surprised at the lack of information provided to the public; she believes education is critical. Retiree Cindy Jansen brought a list of questions that she would like to have answered about the pension plan to respond to retirees and citizens and stated retirees are extremely worried about this and would like to be proactive in getting the word out and being more educated on this topic. Acting Chairman Kadous suggested one of them volunteer to be on the Education Committee. Employee Malena Carreon stated it could affect the City's future recruiting efforts. Margarita Bernal stated there is so much confusion, even some City attorneys do not understand what the pension plan is and she thinks there should be an attempt to make the education basic and easy to understand. Some retirees believe it will not affect them, but both employees and retirees need to understand that it will in fact affect them. Retirement reform is coming along in other states and cities. Retiree Jenefer Carlin suggested someone from the committee speak with the Arizona Daily Star to educate them on the two plans.

Adjournment – **Acting Chairman Kadous stated we are adjourned at 9:30AM.**

Approved:



Robert Fleming
Chairman of the Board

10/28/13

Date



Michael Hermanson
Plan Administrator

10-28-13

Date