

TUCSON SUPPLEMENTAL RETIREMENT SYSTEM BOARD OF TRUSTEES
Regular Meeting Minutes

Pursuant to A.R.S. § 38-431.02, notice is hereby given to the members of the Tucson Supplemental Retirement System (TSRS) Board of Trustees and to the general public that the TSRS Board will hold the following meeting virtually (remotely) using Microsoft Teams on:

Thursday, February 24, 2022, at 8:30 A.M.

MEETING NOTE: Due to the impacts of the COVID-19 pandemic, which have prompted declarations of a public health emergency at the local, state and federal levels, this meeting will be conducted using measures to protect public health. This meeting will be held remotely through technological means, as permitted under Arizona law. The meeting will not include any items that will involve time set aside for public comments. The meeting will be recorded and posted to City Boards, Committees, and Commissions website for public review.

IN-PERSON ATTENDANCE BY MEMBERS OF THE PUBLIC WILL BE PROHIBITED.

PLEASE BE AWARE THAT THESE MEASURES ARE IN PLACE TO LIMIT THE NEED FOR MEMBERS OF THE PUBLIC TO PARTICIPATE IN LARGE PUBLIC GATHERINGS, WHILE ENSURING THAT THE DISCUSSIONS, DELIBERATIONS AND ACTIONS OF THE TSRS BOARD ARE TRANSPARENT AND CONDUCTED OPENLY.

For those individuals new to Microsoft Teams, please download the application and be ready when the meeting starts using the following information:

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[+1 213-293-2303, 967956922#](#) United States, Los Angeles

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A) Call to Order

Chairman Mark Rubin calls meeting to order 8:30am.

B) Consent Agenda

1. Approval of February 2022 Ratification Report
2. Approval of January 19, 2022, Special Minutes
3. Approval of January 27, 2022, Regular Minutes
4. January 2022 Budget to Actual Report

An error in the Budget report was discovered by Jim Wysocki. The updated final copy was not submitted to the Board prior to this meeting

but will be approved at this time but will be corrected on the February report presented to the Board in March.

5. January 2022 Investment Performance Report

Motion to approve consent agenda with understanding that the Budget report would be updated to reflect corrections from Art and Staff made by Kevin Larson, 2nd by Jeffrey Whiting. Motion passes unopposed.

C) Administrative Discussions

1. Continuation of Funding Policy Review

Chairman Rubin opened the discussion by welcoming City Manager Michael Ortega. Mark explained that the Board would not be taking any action on this item today. Mark expressed his gratitude for the successful partnership between the Board and the City through years and acknowledged the City's continued funding at 27.5% as a major factor in the success the plan has seen in recent years.

Kevin Larson reiterated and recognized the City's support of funding at 27.5% as a driver for success and provided an overview of the actuarial assumptions GRS has recommended and the Board has been considering for the last two months. Kevin explained the recommendation was to close the amortization period which would provide more certainty that we would eliminate the unfunded liability. Kevin reported on the work the Board has done to study this information including reviewing a report from the actuary on what other public pensions plans are doing or have done with the amortization period. Kevin reported that of the 30 government plans that were studied, 75% of them have a closed plan. Kevin closed his comments by saying it was important for the Board to hear from the City Manager regarding the assumption changes being considered.

Dana Woolfrey from GRS explained that the primary reason for the plans improvement in the funded status is due to the City's continued commitment to the 27.5% annual contribution funding. She noted that in GRS' role as fiduciary to the plan and Board and in the Board's role as fiduciary, the 27.5% is not in City Code and is out of the Board's control. She noted that the only lever the Board has regarding funding is the funding policy. Dana expressed that there has been a general push in the actuarial community to strengthen funding policies and funding progress has been made to the point that these assumptions changes allow the Board to consider making these changes with no adversarial consequences to the Board underneath the 27.5% funding from the City.

Dana explained GRS's assumption change recommendations as closing the amortization period (including layering as needed), lowering the discount rate to 6.75% and shortening the amortization period to 15

years. She noted that the strongest recommendation is to close the amortization period with the layering approach.

City Manager Mike Ortega briefly touched on his experience serving on Trust Boards and explained his understanding of the Board's role in the plan's success. Mike mentioned that he doesn't foresee the City coming off the 27.5% in the near future but did express his concern as what the future holds in terms of flexibility. He indicated that with the policy change, his flexibility, in terms of budget, would decrease as the employer's annual required contribution increased. Mike stressed that flexibility is the key to success for him. He pointed out that the Mayor and Council commitment to funding both TSRS and PSPRS has been resolute through his tenure and encouraged the Board to think of this in the context of how the City and the Board can partner together to work through the challenges he foresees in the future and suggested maybe we should look at this topic again in a year when more is known about the uncertainties facing the City.

Jim asked Mike which of the three assumption changes would provide him the most amount of flexibility moving forward. Mike answered the discount rate assumption.

Kevin commented on Mike's position as it relates to the flexibility and pointed out that Board stress tested a variety of scenarios and in the worst-case scenario (20% market reduction) the annual required contribution only moved to 22-23% which continued to offer the City financial flexibility, albeit smaller than the current required contribution.

Mike commented that the City and the Board are in it together and it was a partnership and if there were some challenges in the future he would expect the Board and City to come together to overcome them.

Dana commented that in her experience the most successful plans are those that policies that don't require an active change to make a good decision, the good decision is already built in. She indicated that the funding policy is a flexible document that can be adapted to meet challenging markets or circumstances but when the good decisions are already in place in the existing policy it makes the job of future policy makers easier.

Future discussion and action will be taken at the March 2022 meeting.

D) Disability Applications

1. Wesley Babers

Motion to begin Executive Session made by Kevin Larson, 2nd by Jeffrey Whiting. Motion passes 7-0.

Executive session begins at 9:03 a.m.

Motion to leave Executive Session made by Kevin Larson, 2nd by Vivian Newsheller. Motion passes 7-0.

Motion to resume Regular Session made by Jeffrey Whiting, 2nd by Jim Wysocki. Motion passes 7-0.

Regular session resumes at 9:25 a.m.

Motion to deny resumption of disability benefit for Wesley Babers made by Jeffrey Whiting, 2nd by Elsa Quijada. Motion passes 7-0.

Applicant is provided information about other positions within the City of Tucson to which he could apply for consideration.

2. Lani Dzicek*

Motion to begin Executive Session made by Kevin Larson, 2nd by Vivian Newsheller. Motion passes 7-0.

Executive session begins at 9:32 a.m.

Motion to leave executive session made by Jim Wysocki, 2nd by Kevin Larson. Motion passes 7-0.

Motion to resume Regular Session made by Kevin Larson, 2nd by Jorge Hernandez. Motion passes 7-0.

Regular session resumes 9:57 a.m.

Kevin Larson expresses that applicant may reapply and discussions could be brought back to the Board once further medical information is provided regarding her disability.

Cassie states a provision in the City code, Section 10-(5), if a disability applicant is denied disability retirement approval by the Board, the Board may reconsider its denial. The applicant would need to provide the Administrator with new relevant information regarding the potential disability within 12 months of the members date of termination.

Lani asks if the reapplication process can only be approved if she is terminated from her position.

Cassie clarifies that only if termination is present, then she has 12 months from that date to appeal the disability retirement application and bring discussion back to the Board.

Motion to deny disability application for Lani Dzicek made by Kevin Larson, 2nd by Jeffrey Whiting. Motion passes 6-1. (Chairman Mark Rubin dissenting vote)

E) Investment Performance Review

1. Capital Market Expectations – Callan

Gordie Weightman presented Callan's annual Capital Market Expectations which are 10-year forecasts of return risk and correlation among broad asset classes and the expectations are meant to guide the Board and help define the Board's risk tolerance to certain asset classes. Gordie provided information on how the forecast is assembled as well as the underlying beliefs/assumptions that are used in the projection.

Callan's long-term view is that the TSRS portfolio will be really challenged to reach its' 7.00% discount rate based on the 10-year capital market expectations.

Callan's expectations for GDP its in the 2-2.5% range and it's in line with the Federal Reserve and the International Monetary Fund. Inflation is also more modest at 2.25% which is below long-term averages.

Gordie discussed the Fed's tools to control inflation and remains to be seen what they will do with rate increases to combat the growing inflation in the Country.

Gordie closed by saying the that the Board's allocation is equity heavy with a medium return expectation of 5.8%. He explained the probability with meeting our expected rate of return at 7.00% and noted that they are all passive management assumptions with respect to manager performance. He explained that active management could increase the return expectation over the long term.

2. TSRS Quarterly Investment Review for 12/31/2021 – Callan

Gordie Weightman presented the 4th quarter results to the Board and noted that the 5-year return for TSRS is 12.59% vs the benchmark of 10.86% gross of fees, net of fees is 12.1% vs 10.90%. Gordie noted that performance has been persistent over 10 years. TSRS has done extremely well vs peers and much of that is due to active management.

Gordie did note the Real Estate funds from JPMorgan have outperformed in the quarter and have done so over the last year as well.

3. Fixed Income Portfolio – Active Management Recommendations – Callan

Gordie Weightman explained the current fixed income allocation in the Board's investment allocation. He noted that currently the Board has

50% with PIMCO Core Plus strategy and 50% of the bond portfolio in an aggregate index fund managed by BlackRock. Callan's recommendation is to keep a small allocation (10%) to the Blackrock index fund and 40% of the portfolio in a new active Core manager in addition to the 50% allocation Core Plus strategy managed by PIMCO.

The Board agreed to postpone the direction to proceed with this new strategy for a future meeting.

F) For the Board's Consideration

1. Bond Yields Close to Flashing Recession Signal
2. Institutional Investors Seek Returns in High Yield, Inflation Protection
3. Pension Plans Increasing Their Focus on Allocation to Diverse Asset Managers

G) Adjournment

**Motion to adjourn made by Kevin Larson, 2nd by Elsa Quijada.
Motion passes 7-0.**

Adjourned 10:29 a.m.

Members Remotely Present:

Mark Rubin, Chairman
Elsa Quijada, Interim Co-Director Human Resources
Kevin Larson, City Manager Appointee
Vivian Newsheller, Deputy Director Controller
Jorge Hernandez, Elected Representative
James Wysocki, Elected Retiree Representative
Jeffrey Whiting, Elected Representative

Staff Remotely Present:

Art Cuaron, Pension & Benefits Administrator
Pete Saxton, Pension Manager
Dawn Davis, Lead Pension Analyst
Noemi Gonzalez, Pension & Benefits Administrative Assistant
Tina Gamez, Pension Analyst

Guest Remotely Present:

Michael Ortega, City Manager
Catherine Langford, Yoder & Langford
Gordie Weightman, Callan, LLC
Dana Woolfrey, GRS
Kelly Gottschalk, Guest
Wes Babers, Guest (Disability Applicant)
Lani Dzicek, Guest (Disability Applicant)



E-SIGNED by Mark Rubin
on 2022-04-22 23:20:22 GMT

April 22, 2022

Mark Rubin

Date

Chairman of the Board

A handwritten signature in blue ink, appearing to read "Art Cuaron". The signature is written in a cursive style with a horizontal line underneath.

Art Cuaron

Pension & Benefits Administrator

A handwritten date in blue ink, "5/25/2022", written in a cursive style with a horizontal line underneath.

Date