

TUCSON SUPPLEMENTAL RETIREMENT SYSTEM BOARD OF TRUSTEES Legal Action Report

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:

Wednesday, December 20, 2023, 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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Meeting ID: 210 192 305 001

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A) Call to Order

Chairman Mark Rubin calls meeting to order at 8:30 a.m.

Jim Wysocki was excused from this meeting.

Elsa Quijada absent at roll call.

*Note: This material will be delivered prior to Thursday's meeting

Art Curon notes a change in the City of Tucson Staff, and subsequent Board Member change with Vivian Newsheller stepping into a different role and Aaron Williams becoming the new Deputy Director Controller.

B) Consent Agenda

1. Approval of November 2023 Ratification Report
2. Approval of December 2023 Ratification Report
3. October 2023 Budget to Actual Report
4. November 2023 Budget to Actual Report
5. September 2023 Investment Performance Report
6. October 2023 Investment Performance Report

Motion to approve Consent Agenda made by Jeffrey Whitting, 2nd by Kevin Larson. Motion passes 5-0.

Elsa Quijada enters meeting at 8:32 a.m.

C) Investment Performance Review

1. TSRS Quarterly Investment Review for 09/30/2023 – Callan
2. JPMorgan Strategic Proper Fund Portfolio Manager Update - Callan

Gordie Weightman provides an overview of the third quarter by beginning with a view of strong GDP growth and inflation has come down. He notes that an inverted yield curve normally indicates a recession. Many capital market returns have bounced back from the low market returns of 2022. Gordie notes that while there are indicators that a recession is in the future; he feels that there are strong unemployment numbers, as well as an excess of savings, that is bolstering the economy from going into a recession.

Mark Rubin requests further explanation of the average unemployment rate of 3.1% being a 12 month average, however the year to date average is “closer to 2%”. Gordie confirms that they use the annualized number due to accuracy.

Gordie continues with the S&P 500 versus the magnificent 7 indicates that the top 7 companies are driving the index. He introduces the topic of JP Morgan’s real estate portfolio has been on a decline, and for some time now.

Art Cuaron asks at what point should or would the board decide to start divesting from JP Morgan’s Strategic Property Fund. Gordie responds with information regarding the changes with the portfolio manager. He then speaks about their net of fees of returns against it’s peer group and their disappointing returns with the last 10 year rate at 6.48% versus the peer rate of 7.55%. He then explains that JP Morgan has been struggling to transition out of office space, and additionally that it will take 2 perhaps 3 years to fully divest.

Kevin Larson inquires as to the change in portfolio manager perhaps being a positive indicator and Gordie explains that the former manager was efficient and well regarded. Kevin then asks about clarifying the benchmark peer group. Gordie responds that it is an equally weighted average of the 25 font performance in the core funds. Kevin then asks for clarification between two JP Morgan funds, and Gordie explains that the strategic property fund is the core fund, and the other is income and growth.

Mark Rubin requests more information about the process of initiating a plan to divest in JP Morgan's Strategic Property Fund. Gordie suggests that there are options to what the goal is. He suggests, while it is a slow process the board could put the cash flows from divesting into a new core fund. Mark Rubin confirms with Gordie that there would not be a minimum amount to start a new fund as long as the new core fund manager is aware of the final investment amount. Mark asks if there will potentially be issues with divesting in JP Morgan, but Gordie explains that the largest concern is the redemption queue.

Art suggests that in the January Board Meeting, Callan bring more data on the market of real estate to make a better-informed decision on divesting. Kevin inquires if both the Strategic Property Fund and Income and Growth Fund are in the debate of divesting. Gordie responds that there can be a conversation about both funds. Kevin then inquires to the JP Morgan Fund Manager, and Gordie provide a background of her transition.

Gordie continues with showing the asset allocation and notes that 2022 is causing a decrease in the last 3 years, the funds net at 3.88% versus the benchmark of 4.61%. He notes that in the active manager performance listing all managers except JP Morgan are at median or above in the 3 and 5 year categories. He notes that American Century International Small Cap is meant to be riskier, and is at the bottom of their cycle of ebb and flow. He moves on to the cash flows and notes that there was some rebalancing to the JP Morgan funds. He then shows a chart that shows the cumulative returns versus target and that the total fund exceeds the target. He then takes a deeper dive into each manager and how they are compared to their benchmark.

Kevin inquires as to a negative total plan amount of \$9,630,874. Art explains that there is a little over 3 million per month being requested for benefit payments to retirees. Kevin asks what the overall process is for requesting this. Art explains that there are several factors that lead to where the funds get but adhere to the target allocations. Mark asks for clarification regarding the 3 million, Art responds that it is a net number and Peter Saxton gives more detail with the benefit payments totaling approximately 7.1 million and the payroll contributions approximately 4 million.

Gordie notes that with an Asset & Liability Study is look at the cash flow obligations and the fund as a whole. Art notes that the Asset & Liability Study is due in 2024.

Mark requests more information regarding how employees retiring affects payroll contributions. Art notes that when hiring new personnel, they are being brought in at or above mid-point. Jeffrey Whiting adds that the city has been understaffed for quite some time and are trying to fill vacancies quickly. Vivian Newsheller adds that there are payroll adjustments happening for longer-term employees. Elsa Quijada echoes everyone's experiences with new employees. Art notes that the Asset and Liability Study and Valuation Study, which will aid the Board in decision making purposes.

Board directs staff and Callan to place discussion of divesting in JP Morgan in the January 2024 agenda.

D) Administrative Discussions

1. 2024 Board Calendar

Motion to adopt the 2024 Board Calendar made by Kevin Larson, 2nd by Jeffrey Whitting. Motion passes 6-0.

E) For the Board's Consideration

1. Fed Holds Interest Rates Steady Again
2. Minimizing Risk Over Chasing Returns

Discussion held; no action taken.

F) Adjournment

Motion to Adjourn made by Kevin Larson, 2nd by Jeffrey Whitting. Motion passes 6-0.

Adjourned at 9:23 AM.

Members Remotely Present:

Mark Rubin, Chairman
Elsa Quijada, Deputy Director of Human Resources
Jorge Hernandez, Elected Representative
Kevin Larson, City Manager Appointee
Vivian Newsheller, Deputy Director Controller
Jeffrey Whiting, Elected Representative

Staff Remotely Present:

Art Cuaron, Pension & Benefits Administrator
Pete Saxton, Pension Manager
Dawn Davis, Lead Pension Analyst
Anastacia Sanders, Pension Assistant
Aaron Williams, Senior Internal Auditor

Guest Remotely Present:

Catherine Langford, Yoder & Langford
Gordie Weightman, Callan

Please Note: Legal Action may be taken on any agenda item

*Pursuant to A.R.S. 38-431.03(A)(3) and (4): the board may hold an executive session for the purposes of obtaining legal advice from an attorney or attorneys for the Board or to consider its position and instruct its attorney(s) in pending or contemplated litigation. The board may also hold an executive session pursuant to A.R.S. 38-431.03(A)(1) for the discussion or consideration of matters specific to an identified public officer, appointee, or employee or pursuant to A.R.S. 38-431.03(A)(2) for purposes of discussion or consideration of records, information or testimony exempt by law from public inspection.

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Mark Rubin	Date	Art Cuaron	Date
Chairman of the Board		Pension Administrator	