

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 22, 2024, 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: 288 663 574 961
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A) Call to Order

Jorge Hernandez calls meeting to order at 8:30 a.m.

Mark Rubin absent at roll call.

B) Consent Agenda

1. Approval of October 27, 2023, Regular Minutes*

*Note: This material will be delivered by COB on Tuesday, February 20th.

2. Approval of December 20, 2023, Regular Minutes*
3. Approval of January 2024 Ratification Report
4. Approval of February 2024 Ratification Report
5. December 2023 Budget to Actual Report
6. January 2024 Budget to Actual Report
7. November 2023 Investment Performance Report
8. December 2023 Investment Performance Report

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

C) Investment Performance Review

1. 2024 Capital Market Expectations/Asset Allocation Update – Jay Kloepfer, Callan

Jay Kloepfer begins the presentation with an overview of what a capital market projection is and its structure. He notes on Slide 8 that many economists were projecting a recession due to many factors; however that has not occurred which led into slide 9 touching on the growth of GDP. He notes that there is larger than normal correlation to stocks and bonds; which can be contributed to the rise in inflation. He moves on to the capital market expectations, in which he states that the average historical equity risk premium is 4.3% compared to TSRS's risk premium of 2.25%. He notes on slide 27 that private equity markets are known to lag in the way it is reported. He states that private equity markets can still be an attractive asset class; however office real estate is a large concern. He notes in his modeling of the projected forecasts that there could be at least one year of recession as well as two big drawdown included. Gordie notes on slide 37, the graph shows different alternatives to what asset class structures TSRS has currently; he states that this is an opportunity to reflect on the types of asset class structures as well, such as private credit. Art Curon inquires if the projections take into account manager performance. Gordie responds that the projections are trying to capture the median expectation after fees. Jay states that the asset-liability study must take into account how the TSRS Board moves the fund with its investment policy, but must also take into consideration the inflows and outflows of the benefits and funding policies. Jay notes the asset-liability process has already started and is currently at phase one. Gordie notes that in phase two that the board can explore other options within the asset classes. Art notes that the Callen asset-liability fee structure, as well as the current Callen fee structure, will be presented to the Board in the March meeting.

Discussion held; no action taken.

2. Private Real Estate Evaluation and Discussion – Aaron Quach, Callan

Aaron Quach begins the presentation with an overview of the U.S. private real estate market performance. He notes that the Odyssey Index is a proxy used to compare funds; and has experienced six quarters of negative appreciation. He notes that this can be contributed to the Federal Reserve's Interest Rates, as

*Note: This material will be delivered by COB on Tuesday, February 20th.

well as some bank failures. He states that office will continue to be a challenge for real estate owners and portfolios. He concludes the overview by stating real estate portfolio managers are providing 5% to 10% of outstanding redemption liquidity requests to investors per quarter. Gordie notes that it is difficult to determine how investors will receive their money back, and Aaron continues by stating that many portfolio managers are not providing time estimates at all. Gordie notes that J.P. Morgan portfolios might have longer queues than the estimates Aaron provided, to which Aaron agreed as the Strategic Property Fund was a redemption queue of 23% versus the Odyssey's average of 15%.

Aaron moves on to talk specifically about J.P. Morgan's challenges, including personnel changes and being overweight in office and retail, and underweight in industrial. He notes that J.P. Morgan has addressed its industrial underweight, as well as changed the office and retail portfolio. Mark Rubin inquiries regarding the staffing from the last in-person meeting three years ago versus now. Aaron states that while they are a well-resourced firm, that doesn't set them apart from peers as managers. Jorge inquires as to any philosophical changes due to the personal changes; and additional inquiries if there is a significant obstacle for the fund with how much capital is being redeemed. Aaron answers that there have not been any significant changes to the strategy. Art inquires as to a previous J.P. Morgan meeting where they attributed their underperformance to the way they take write downs and the index that is used. Aaron notes that the 3rd party appraisers come in to value the funds, however, some portfolio managers can provide input into the appraisal that can change the levels of write downs. He goes on to say that quarter to quarter write downs become very volatile. Additionally, he notes that their retail model was a hinderance when there was repricing. Aaron moves on to the J.P. Morgan Income and Growth Fund which is overweighted in residential and industrial, which is where the market would want a core fund to be. Gordie notes that there has not been significant improvement in this fund either, despite the length of time TSRS has been with the fund; underperforming 7 of the last 10 years.

Gordie states that there are many options that the Board can choose to take. The first is to stay with the funds and hope that the long-term benefits can lead to success. Another option is to liquidate all the assets in the funds, which would be a long-term redemption queue. A third option is to replace the Income and Growth Fund with another value-add fund, while keeping the core Strategic Property Fund. A final option presented is to reduce the weights in the funds and bring in new managers to complement the new allocations.

Kevin Larson inquires why the benchmark is below the median in many cases. Gordie states that the J.P. Morgan fund is the second biggest fund in the Odyssey index, so there under performance is bringing the benchmark down. Kevin then asks about the queue being 2 to 3 years to liquidate fully, which Gordie corrects with 5% every quarter totaling 20 quarters, or 10% every quarter totaling 2 and a half to 5 years to completely liquidate.

Elsa Quijada states that she would not recommend Gordie's first option to the Board. Mark Rubin asks if the Board decides to liquidate all assets, is there a

way that they might be able to get back into the fund later. Aaron confirms that once the Board is in the queue, the Board can rescind any redemption requests. Mark Rubin inquires as to whether the Board will get full participation in the funds while in the queue. Aaron confirms that the Board will receive full returns of the dividends while in the queue.

Mark Rubin enters the meeting at 9:38 a.m.

Motion to divest from both JP Morgan Real Estate Funds made by Kevin Larson, 2nd by Aaron Williams. Motion passes 6-0.

3. TSRS Quarterly Investment Review for 12/30/2023 – Gordie Weightman, Callan

Gordie Weightman notes that there was an actual return of 12.25% with a target rate of 12%. Real estate was a major detractor, down by 32 basis points with the actual return of negative 14.5%, which is worse than the benchmark of negative 12.4%. He notes that T Rowe Price, which has large cap equity, can vary based on how the growth is performing in the markets. He states that the funds have achieved the target rates 5 of the 7 years shown on slide 37. Mark Rubin inquires on slide 34 the definition of total relative return. Gordie responds that it is the combination of the manager effect in the style allocation.

Discussion held; no action taken.

D) Administrative Discussions

1. Review Proposed Code Amendments

Art Cuaron begins the presentation with the clarifying and defining of how service purchases are accounted for within the system, what accumulated contributions are, how the system pays out a death benefit, and the forfeiture of refund and contributions. He notes the updates related to the refunds of non-vested members, due to legislative changes related to Secure Act 2.0. Jim Wysocki inquires as to the changes made pertaining to Section 22-30 (u); which Art responds that it was a redundantly worded section prior to the change.

Motion to approve the proposed Code Amendments made by Elsa Quijada, 2nd by Jorge Hernandez. Motion passes 6-0.

E) For the Board's Consideration

1. Fund Manager's Shake It Off, Saying They're the Most Bullish in Years
2. Public Retirement Systems' Investment Management Expenses Dip to 4-Year Low

Discussion held; no action taken.

F) Adjournment

Motion to Adjourn made by Jim Wysocki, 2nd by Elsa Quijada. Motion passes 6-0.

Adjourned at 10:42 A.M.

Members Remotely Present:

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

Staff Remotely Present:

Art Cuaron, Treasury & Pension Administrator
Pete Saxton, Pension Manager
Dawn Davis, Lead Pension Analyst
Anastacia Sanders, Pension Assistant
Angelica Cota, Pension Assistant

Guest Remotely Present:

Jay Kloepper, Callan
Aaron Quach, Callan
Catherine Langford, Yoder & Langford
Gordie Weightman, Callan
Dana Woolfrey, GRS

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.

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