

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, May 23, 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: 297 149 505 469

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A) Call to Order

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

Kevin Larson absent at roll call.

B) Consent Agenda

1. Approval of March 28, 2024, Regular Minutes
2. Approval of April 2024 Ratification Report
3. Approval of May 2024 Ratification Report
4. February Budget to Actual Report
5. March Budget to Actual Report
6. April Budget to Actual Report
7. February 2024 Investment Performance Report
8. March 2024 Investment Performance Report

Motion to approve Consent Agenda made by Jeff Whiting 2nd by Jim Wysocki. Motion passes 5-0.

C) Investment Performance Review

1. TSRS Quarterly Investment Review for 03.31.2024 - Callan
2. Real Estate Education - Callan

Craig Chaikin begins with an overview of the market as of March 31st, and notes that it was a good quarter for equities but a difficult quarter for bonds due to interest rates. He notes on slide 21 that there were \$37 million in investment returns in quarter 1, and that there were residual investments in Aberdeen that are in process to transfer to Acadian. He goes on to note that the overall return net of all fees the portfolio is up at 3.96% however real estate is what putting it below the benchmark of 4.01%. Gordie Weightman highlights on slide 29 that fiscal year 2022 should be seen as an outlier.

Aaron Quach begins by explaining that real estate comprise of the rental income collected minus expenses at 75% and increases in the value of the real estate assets at 25%. He then notes that there are some benefits to real estate such as historic relative returns and appraisal lag that can smooth volatility. There are also concerns with investment in real estate such as lower transparency in value and non-liquidity in redemption queues. He then explains on slides 8 that there is a trend of competitive returns over long periods of time.

Jim Wysocki inquires regarding the chart on page 8 as to the large returns of the S&P 500 and if there is a value of having such a large portion of the portfolio in real estate. Gordie answers that there is no expectation that real estate will outperform the S&P 500 but is used to illustrate a performance and risk comparison. Aaron then explains on slide 11 that there were significant rebounds in real estate during the last 3 economic troughs. Mark Rubin notes the significant performance of REITs, then inquires as to why not invest in REITs to reduce the managers fees and of lack of liquidity. Aaron shows on slide 9 that the correlation coefficient between public REITs and public equities as expressed by the S&P 500 is high, whereas the correlation coefficient between private real estate relative to the S&P 500 is effectively zero. Gordie then explains further that REITs are like stocks and that they are already in the plan and would decrease diversification in the

plan. Mark then expresses concern regarding the earlier discussion regarding the recovery from economic downturns, in that those troughs did not have significant lifestyle changes such as work-from-home versus office environments and ecommerce. Aaron states that office space and retail specifically have been reflected in valuations with lower weightings and write-offs. Jim Wysocki states that while there are benefits to real estate such as consistent potential for income, there is a major drawback in illiquidity. Gordie confirms that there are high redemption queues currently and that the illiquidity is a major concern and can create an issue if a plan is trying to rebalance into a different core fund. Aaron concludes with reiterating that Callan believes that the costs of private real estate outweigh the benefits.

Adam Lozinski begins his presentation with the capital market projections, which is at a 30 year low for real estate. He states that Callan projects that the risk premium will increase and the difference in return between the projected portfolios would increase as well. He then goes on to illustrate if TSRS had those portfolios in place what would happen; with the result being the portfolio with real estate would have outperformed the others. Gordie notes that the current portfolio allocates 12% to real estate, and Mark Rubin inquires as to a comparison of percentages against peer groups. Gordie states that the 12% may be a bit higher but is fairly typical. Adam then points out that getting a sense of what mixes to model for the Asset Liability study and how that affects liquidity. Adam then shows on slide 23 what would the actual dollar difference have been with the different projections, with the allocation of 12% in real estate bringing \$35-\$70 million in growth. He concludes with including real estate makes the portfolio less volatile.

Mark Rubin inquires as to why the portfolio does not currently include private equity. Gordie states that it is a very long-term commitment and only semi-liquid. Craig Chaikin states that private equity has a positive effect on volatility due to its slower movement but goes on to say that the current allocation is keeping with objectives so there is not a reason to complicate the investment process. Gordie states that Callan would like direction from the Board regarding the asset liability study, and Art Cuaron states that real estate has provided value and should be included in the study, and Jeffrey Whiting concurs.

Aaron concludes Callans presentation by informing the board about JP Morgans fee credit program for the strategic property fund that TSRS is redeeming. He states the company is offering a 30% fee credit program to all investors that have no more than 20% of their net asset value in the redemption queue and lasts for six quarters. Art states that after conversations with Callan it has more administrative burden than the fee savings might be worth. Mark Rubin requests Art talk with staff about the recommended action in the next meeting, due to an August 31st deadline.

Board gave direction to Callan and Staff to include Real Estate within the model for the Asset-Liability Study.

D) Administrative Discussions

1. Disability Audit Update

Art Cuaron informs the board there are only 2 individuals who have not submitted their Disability Audit paperwork out of the 15 total individuals being audited.

2. FY 2025 TSRS Budget Adoption

Art updates the board that there was not an opportunity to reconcile the numbers for the fiscal year 2025 budget adoption, and requests that he update the Board next meeting.

3. FY 2025 TSRS Rate Adoption Materials

Art states that the Mayor and Council have adopted the TSRS Board Recommendation regarding the increase in variable rates for Teir 1 Variable and Teir 2.

Discussion held; no action taken.

E) For the Board's Consideration

1. Fed's Powell Says Inflation Will Come Down but We'll Need to be Patient
2. US Public Pension Plans Now Overallocated to Alternatives

Discussion held; no action taken.

F) Adjournment

**Motion to Adjourn was made by Jim Wysocki, 2nd by Elsa Quijada.
Motion passes 5-0.**

Adjourned at 9:55 a.m.

Members Remotely Present:

Mark Rubin, Chairman
Elsa Quijada, Deputy Director of Human Resources
Aaron Williams, Interim Deputy Director Controller
Jim Wycoki, Retiree Elected Representative
Jeffrey Whiting, Elected Representative

Staff Remotely Present:

Art Cuaron, Treasury & Pension Administrator
Pete Saxton, Pension Manager
Anastacia Sanders, Pension Assistant

Guest Remotely Present:

Catherine Langford, Yoder & Langford
Adam Lozinski, Callan
Aaron Quach, Callan
Gordie Weightman, Callan
Craig Chaikin, Callan
Gar Chung, FIN-News
Joe Ebisa, WithIntelligence

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 & Benefits Administrator	