

TUCSON SUPPLEMENTAL RETIREMENT SYSTEM BOARD OF TRUSTEES AGENDA

DATE: Thursday, January 28th, 2016
TIME: 8:30 a.m.
PLACE: Finance Department Conference Room, 5th floor
City Hall, 255 West Alameda
Tucson, Arizona 85701

A. Consent Agenda

1. Approval of December 17th Board Meeting Minutes
2. Retirement Ratifications for January 2016
3. December 2015 TSRS Budget Vs Actual Expenses

B. Administrative Discussions

1. Additional Retirement Incentive and Impact to TSRS
2. Retirement of TSRS Employee
3. Update on Pension Administrator Recruitment
4. Discussion of Investment Manager Fee Structure

C. Investment Activity Report

1. TSRS Portfolio Composition, Transactions and Performance Review for 12/31/15

D. Articles for Board Member Education / Discussion

1. Letter from Callan to Clients: Identifying Asset Mix to Achieve Expected Rate of Return

E. Call to Audience

F. Future Agenda Items

1. March 31, 2016 meeting – Investment Manger Visit -Fidelity

G. Adjournment

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

*Pursuant to ARS 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)(2) for purposes of discussion or consideration of records, information or testimony exempt by law from public inspection.

TUCSON SUPPLEMENTAL RETIREMENT SYSTEM BOARD OF TRUSTEES MEETING MINUTES

DATE: Thursday, December 17th, 2015
TIME: 8:30 a.m.
PLACE: Finance Department Conference Room, 5th floor
City Hall, 255 West Alameda
Tucson, Arizona 85701

Members Present: Robert Fleming, Chairman
Kevin Larson, City Manager Appointee (arrived 8:44 AM)
Rebecca Hill, Interim HR Director
Silvia Amparano, Director of Finance
Michael Coffey, Elected Representative (arrived 8:41 AM)
Jorge Hernández, Elected Representative
John O'Hare, Elected Retiree Representative

Staff Present: Dave Deibel, Deputy City Attorney
Silvia Navarro, Treasury Administrator
Art Cuaron, Treasury Finance Manager
Dennis Woodrich, Lead Pension Analyst (arrived 8:36 AM)
Dawn Davis, Administrative Assistant

Guests Present: Claire Beaubien, CTRA Representative

Absent/Excused: None

Chairman Fleming called the meeting to order at 8:32 AM.

A. Consent Agenda

1. Approval of October 30th Board Meeting Minutes
2. Approval of November 19th Board Meeting Minutes
3. Retirement Ratifications for December 2015
4. November 2015 TSRS expenses and revenue compared to budget

The Consent Agenda was approved by a vote of 4 – 0 (Chairman Fleming did not vote, Kevin Larson and Michael Coffey absent/excused).

B. Administrative Discussions

1. City Manager Proposed Retirement Incentive

Silvia Amparano explained this was part of the fiscal year 2017 (FY17) budget process. The City was going to have another difficult year, mainly because expenditures grew faster than revenues. The largest anticipated increase was \$25M for PSPRS. The City Manager has started talking to Mayor and Council, and considering options for downsizing the organization. The FY17 deficit is estimated to be \$40M at this time, and the departments' non-personnel budgets have already lost all flexibility so the City is trying to decrease the number of employees. The City Manager proposed a retirement incentive for those employees eligible to retire. The incentive is 3 months of base pay if they retire before 2/5/16. Mayor and Council gave direction to proceed with the incentive on 12/15/15 and a memo was sent out to all City employees advising them of the incentive, and the qualifications to be eligible for it. TSRS staff would be holding open houses for one hour on 12/18/15 and

12/21/15, for those who are eligible and want more information. They will be able to make appointments and request consultations. There were around 440 employees currently eligible to retire, 200 of them are in the general fund. The plan is to move employees from the general fund into positions outside of it, and leave the positions in the general fund vacant. A hiring freeze is anticipated to last at least 4 years. The incentive provides an opportunity for employees already considering retirement to move a little faster than they would have otherwise. It would be nice to run an analysis of the cost of the incentive to the plan, but a little premature without knowing how many people will retire. Council Member Romero asked how this would impact the plan since contributing members would not be replaced. The Board would also need to determine and consider what this would mean for the plan.

Chairman Fleming said assuming the plan was fully funded; it should not have a direct affect. The affect would be actuarial assumptions, and fewer contributing members for the 20 year closed amortization. There would be more members in tier I to retire which could have the salutary effect of shifting the curve a little.

Ms. Amparano answered if the higher paid employees leave it should offset the negative impact.

Chairman Fleming asked if it was possible to get an actuary report quickly if they assume 50 people take advantage of the incentive, and 70% of them are tier I.

Ms. Amparano answered yes the actuary probably could produce a report pretty quickly if they asked her to use FY15 as a base for payroll numbers.

Chairman Fleming explained the results would not be accurate but it would give them an idea of the affect the incentive would have on the plan.

Ms. Amparano advised they would have information for the Board at the meeting scheduled on 1/28/16. It would be a preliminary report that does not have a lot of information, and after they knew how many people would take advantage of the retirement incentive a more in-depth report would be provided.

Dave Deibel stated it would be interesting to see how many people come to the informational sessions held by TSRS staff because that could give them an idea of how many people would take the incentive.

Chairman Fleming asked when the sessions were.

Silvia Navarro answered they were at 1:30 PM on Friday 12/18/15 and 9:00 AM on Monday 12/21/15. The same information would be provided at both meetings.

Mr. Deibel stated there were 16 people eligible to retire in the City Attorney's Office and only one of them said they were thinking about it.

Chairman Fleming answered the retirement incentive would probably have a less profound effect than the City Manager's Office anticipates.

Mr. Deibel said he agreed because people have not been considering taking the retirement incentive because it was too short of a time for them to get their finances in order.

Rebecca Hill advised HR estimates that 20-30 people would take advantage of the retirement incentive.

Chairman Fleming stated the impact would be pretty minimal to the fund, so maybe it was not worth the effort to get an actuarial report for the Board, but if it has to be done anyway the Board would like to see it.

Ms. Amparano answered this was just the first step in balancing the budget. The hope is to avoid layoffs by encouraging eligible employees to retire. The City Manager held a retreat with Mayor and Council last week and advised that every day they do not take action on the budget it costs \$76K which makes it harder to balance the budget in the future. The other item management has been asked to look at is releasing

employees, who do not have civil service protection under their probationary period in order to protect the employees who had civil service protection.

Michael Coffey asked if this would apply to the new Pension Administrator.

Ms. Amparano answered there was currently a City wide hiring freeze on external recruitments. The City Manager has been asked to make an exception for the Pension Administrator position because they were already so far along in the hiring process. There were 37 applicants, 12 met the minimum qualifications, and it was determined the 3 applicants on the interview list with the lowest scores should not be considered. They are still proceeding until directed otherwise. Ron Lewis, the Assistant City Manager over finance announced that he will be retiring and taking advantage of the incentive; he was the one giving direction on the hiring of a Pension Administrator. Now direction will have to come from the City Manager. There is one internal candidate who is an option if they do not receive approval to hire an external candidate. The oral boards will be scheduled for the beginning of January 2016.

Ms. Navarro stated the oral boards would begin on 1/6/16 and would continue for a few days.

Mr. Coffey asked about the specifics regarding the layoff of probationary employees.

Ms. Hill explained it would be strategic, so it is up to each department director to identify individuals whose performance has not been exceptional, as well as positions that are not critical to the mission.

Mr. Coffey asked how this would impact an applicant's inclination to accept the Pension Administrator position.

Ms. Amparano answered they would have to consider whether they wanted to take a City job during a financial crisis, especially when many new hires have been let go.

Mr. Coffey asked whether the City hires for positions not critical to the mission, and if people with less than stellar performance were passing probation.

Ms. Hill explained department directors have been asked to look at which services are absolutely necessary given the current financial constraints and identify services for potential elimination.

Mr. Coffey asked if the Pension Administrator provided a necessary service that would not be eliminated.

Ms. Amparano answered the position was mandated in the City Code. Whether the new Pension Administrator is hired from inside or outside the City was subject to change.

Mr. O'Hare asked if there was a possibility of hiring someone from outside the City on a consultant type basis to avoid the civil service system.

Ms. Amparano answered the position was not at risk like the general fund positions because the salary comes out of the trust, so they could advise applicants the current risk was to positions funded by the general fund.

Mr. O'Hare asked if someone was planning on leaving at the first of the year would they still receive the retirement incentive.

Ms. Amparano answered yes, anyone leaving between 12/16/15 and 2/5/16 would receive the incentive.

Mr. O'Hare asked if the incentive payout was funded by the general fund.

Ms. Amparano answered the incentive money would come from the fund the retiree's position is under, so if a Tucson Water employee retired Tucson Water would pay the incentive. The incentive is not eligible to be rolled over into members 457 accounts; this is something they will have to inform potential retirees of because the incentive will be taxed like a payout.

2. Mayor and Council Presentation Regarding Code Revisions

Silvia Amparano stated she spoke to Mayor and Council on 12/8/15 and asked them to approve all of the Board's amendments to the Code, except the funding policy. They did approve all the Code changes. She will be going back to Mayor and Council to approve contribution rates and discuss whether they want to codify the funding policy. Everything else needed for the IRS determination letter was approved and Catherine Langford was working on that submission.

Michael Coffey asked when she planned to return to Mayor and Council with the funding policy.

Ms. Amparano answered probably late January or early February 2016, it would be a part of the budget discussions. The City Manager recommended a 27.5% contribution rate for FY17, as recommended by the TSRS Board, during his proposal for the retirement incentive.

3. PIMCO Fee Structure

Silvia Navarro presented the proposed PIMCO fee structure of 0.50% on the first \$100M, 0.45% on the next \$100M, and 0.40% thereafter. At the 10/30/15 Board meeting Sasha Talcott, from at PIMCO, advised that they were willing to negotiate an alternative fee schedule or agreement.

John O'Hare stated his understanding of what was said at the Board meeting held on 10/30/15 was that the Board was currently charged according to the fee schedule described.

Ms. Navarro answered TSRS has a fixed rate, and Ms. Talcott meant that PIMCO was willing to negotiate a new fee structure based on earnings. Callan advises against a fee structure based on performance because the Board could end up paying much more when the manager outperforms and because the fee would be unknown.

Mr. O'Hare expressed interest in paying 90% of their fee if they underperform, and if they outperform the benchmark by a certain number of points paying them 110% of their fee.

Ms. Navarro answered this was something staff could negotiate if the Board would like.

Mr. O'Hare asked if any other Board members would be interested in this.

Michael Coffey stated they needed to know the fee structures of their other investment managers before he could answer that question.

Chairman Fleming answered none of the other managers fees were performance based.

Mr. O'Hare asked if the real estate managers had performance based fees.

Art Cuaron said staff could research that for the Board.

The Board requested information on the fee structures of all the Investment Managers they employ.

C. Investment Activity Report

1. TSRS Portfolio Composition, Transactions and Performance Review for 11/30/15

Art Cuaron said the month of November ended with a Fund balance of about \$723M; which is about a \$3.5M increase over the balance as of 10/31/15, a significant portion of that increase resulted from infrastructure. Today the fund is down to \$714M, almost a \$9M drop, primarily in equities and bonds. The Fed raised interest rates yesterday.

Calendar YTD – As of 11/30/15 the Total Fund returned 1.49% which is a 51 basis point increase over the return of 0.98% on 10/31/15, but still underperforming compared to the Custom Plan Index return of 2.23%. Total Fixed returned 0.82%, which is down 43 basis points compared to the return of 1.25% on 10/31/15, but close to the Barclays Aggregate return of 0.89%. Total Equities returned -0.25% which is a 15 basis point increase over the return of -0.4% as of 10/31/15, but still trailing the Equity Composite return of 1.39%. Total Real Estate returned 13.68% which is an increase over the 10/31/15 return of 12.44%, and outperformed the NCREIF return of 11.29% (as of 9/30/15). Total Infrastructure returned 6.08%, which is an increase over the -0.1% as of 10/31/15, and outperformed the CPI +4 return of 4.77%.

Fiscal YTD – As of 11/30/15 the Total Fund returned -1.36%, a 49 basis point increase over the 10/31/15, but trails the Custom Plan Index return of -0.13%. Total Fixed returned 0.05%, which is a 43 basis point decrease from the 10/31/15 return, and trails the Barclays Aggregate return of 1%. Total Equities returned -3.42%, a 14 basis point increase over the 10/31/15 return, and trailing the Equity Composite return of -1.24%. Total Real Estate returned 4.81%, an increase of 1.14% over the return as of 10/31/15, and outperforming the NCREIF return of 3.68% (as of 9/30/15). Total Infrastructure returned 6.60%, an increase of 6.22% over the return as of 10/31/15, and outperforming the CPI +4 return of 1.10%.

One Year to Date – As of 11/30/15 the Total Fund returned 0.11%, a decrease of 1.66% from the return as of 10/31/15, and trailing the Custom Plan Index return of 1.77%. Total Fixed returned -0.75%, down 1.59% from the return as of 10/31/15, and trailing the Barclays Aggregate return of 1.08%. Total Equities returned -1.82%, down 2.48% from the return as of 10/31/15, and trailing the Equity Composite return of -0.13%. Total Real Estate returned 16.24%, is up 1.81% from the return as of 10/31/15, and underperformed the NCREIF return of 18.66% (as of 9/30/15). Total Infrastructure returned 2.75%, an increase of 2.02% from the return as of 10/31/15, and trailing the CPI +4 index return of 4.27%.

John O'Hare stated that according to the one year to date numbers T. Rowe Price was underperforming by 400 basis points over a 12 month period, and Champlain, who the Board tends to beat up, was outperforming the index by 200 basis points.

Mr. Cuaron explained about \$5M had been taken from T. Rowe Price to fund pension obligations in September which may have impacted the numbers.

Mr. O'Hare stated there should be a way to report the returns where money withdrawn did not show as a loss in the returns.

Silvia Navarro stated staff could indicate which manager they took money from and address that manager individually when going over the investment reports.

Michael Coffey asked why this would affect the returns.

Ms. Navarro answered it would be the ending balance vs. the total allocations. Usually they take money from a manager that is over the target.

Mr. Cuaron stated when they request money to cover pension obligations they consult with Callan and take the eventual rebalance authorized by the Board into account. So if a manager is overweight and they will have money added in the rebalance staff will not necessarily request money from them.

Mr. Coffey stated the way staff reported on this seemed to be the problem as it was imprecise.

Chairman Fleming asked if staff took 5% from T. Rowe Price would it show as a 5% loss.

Mr. Cuaron answered he would research it and advise at the next meeting, but at the end of the day they are reporting on the ending balances.

Ms. Navarro stated staff could advise what the return would be if money was not withdrawn as well as what the current numbers were.

Kevin Larson asked if these numbers were calculated by staff or if they were provided.

Ms. Navarro answered they were provided by BNY Mellon.

Mr. Larson stated they probably gave a time weighted return, not looking at the swings and balances because that was the standard.

Ms. Navarro stated what was taken from the custodian was ending balances of last month and ending balances of the current month. Usually they are able to reconcile the money withdrawn to the manager it is withdrawn from.

Mr. Cuaron stated that client earnings were \$33M as of 11/30/15. The cash transfer in November was from Black Rock in the amount of \$5M for pension obligations.

D. Articles for Board Member Education / Discussion

1. Countdown to a Better DC Plan

E. Call to Audience

John O'Hare commended Silvia Amparano for her presentation at the Mayor and Council Meeting of 12/15/15, and advised the annual OPAL Public Funds Conference would be in Phoenix from 1/13/16 through 1/15/16.

Dennis Woodrich gave an update on the status of the disability retirement recipients who had their benefit payments stopped according to the Board action taken on agenda item 4a at the meeting held on 10/30/15. One of the recipients had moved and his mail was not forwarded. He came into the office before his benefit was shut off and completed an audit form. The other recipient did not receive a November payment, and his attorney contacted the office and got the affidavit to the TSRS office because the member was in Panama.

F. Future Agenda Items

1. January 28, 2016 meeting – Update on Pension Administrator Recruitment

G. Adjournment 9:12 AM

Approved:

Robert Fleming
Chairman of the Board

Date

Silvia Navarro
Treasury Administrator

Date

Service & Disability Retirements, End of Service Entrants for TSRS Board of Trustees Ratification

12/10/15 - 01/09/16 - January 2016

Name of Applicant	Department	Type	Effective Date	Date of Birth	Age	Credited Service	Present Value	Member's Accumulated Contributions	AFC	Option	Pension
Baker, Vernon E	General Services	Normal	1/9/2016	1/24/1956	59.96	20.4210	482,245.37	142,731.11	8,000.09	J&S 100%	3,224.88
Buffalo, Randy B	Water Utility	Normal	1/9/2016	5/30/1957	58.61	25.8017	347,985.54	110,983.35	4,498.59	J&S 50%	2,474.13
Burrue, Douglas E	Water Utility	Normal	1/5/2016	12/11/1951	64.07	18.8999	216,790.21	101,143.14	4,171.29	J&S 50%	1,655.21
Capetta, Robert T	Transportation Department	Normal	1/8/2016	4/7/1950	65.75	7.5408	65,147.53	32,608.15	3,274.49	Sigle Life	555.58
Hemersbach, James R	Police Department	Normal	1/9/2016	10/5/1955	60.26	22.9671	303,534.76	102,985.97	4,477.20	Sigle Life	2,313.64
Jaworsky, Stefan	Parks & Recreation	Deferred	12/23/2015	12/23/1953	62.00	5.2521	69,115.97	21,232.78	4,610.67	Sigle Life	544.85
Koenig, Ronald E	Housing and Community Dev	Normal	1/9/2016	8/5/1958	57.43	23.8579	582,235.68	173,942.71	7,911.43	J&S 100%	3,829.15
Kruse, Dennis W	Information Technology	Normal	1/5/2016	7/14/1946	69.48	16.7384	135,596.30	44,709.36	3,297.73	J&S 100%	1,041.93
Laporta, Ross R	Water Utility	Normal	1/9/2016	4/26/1955	60.70	34.0084	455,890.99	190,376.84	4,616.29	J&S 100%	3,127.42
Lijekvist, Charles W	Transportation Department	Normal	12/29/2015	3/25/1962	53.76	26.3246	342,342.10	101,528.43	4,061.26	J&S 100%	2,180.75
Morales, Sandra M	Finance	Normal	1/9/2016	12/26/1959	56.04	24.0312	359,604.28	80,209.31	3,348.04	Sigle Life	1,810.29
Morris, Erin S	Planning & Development Ser	Normal	1/9/2016	3/15/1962	53.82	26.2080	428,961.42	163,608.43	4,967.44	J&S 100%	2,736.40
Noel, Rebecca G	Police Department	Normal	1/5/2016	6/19/1955	60.54	19.5937	221,185.23	62,972.94	3,732.82	Sigle Life	1,645.65
Ogle, John W	City Courts	Normal	12/19/2015	12/14/1949	66.01	9.2449	55,604.88	27,452.03	2,279.70	J&S 100%	373.78
Sandante, Selma	Information Technology	Normal	12/12/2015	6/3/1954	61.53	37.7988	816,671.79	269,486.82	7,254.90	Sigle Life	6,170.08
Stiner, Joanna	Police Department	Normal	1/8/2016	7/26/1953	62.45	23.9156	289,967.67	86,466.32	4,071.26	Sigle Life	2,190.75
Averages					60.78	21.41	323,304.98	107,027.36	4,660.83		35,874.49
									74,573.20		2,242.16

Comparison of Monthly Pension Payments - Beginning of FY 2015 to Current Monthly Pension Payments

	Plan Year beginning 07/01/2015 (*from GRS annual valuation)			December 2015 Pension Payroll		Annualized	Annual change since July 1, 2015	% change
	Monthly	Annual						
Service Pensions	2,305	5,007,097	60,085,166	2,328	5,073,180	60,878,162	792,996	1.32%
Disability Pensions	160	174,259	2,091,109	153	169,915	2,038,983	(52,126)	-2.49%
Survivor Pensions	344	298,979	3,587,750	333	325,557	3,906,683	318,933	8.89%
	2,809	5,480,335	65,764,025	2,814	5,568,652	66,823,828	1,059,803	1.61%
				3 \$	11,043			
				(net) change from previous month				

Report ID : FIN-COT-BA-0001

Run Date : 01/22/2016

Run Time : 11:08 AM

**City of Tucson
Budget vs Actual Expenses
Through: December, 2016
For Fiscal Year 2016**

Parameter Page

Parameters and Prompts

Fiscal Year	2016
Accounting Period	6
Fund	072
Department	900
Unit	*
Object Code	*

Report Description

The Expenses vs. Actual Report shows expenditures and encumbrances for the selected accounting period and for the selected fiscal year compared against the current expense budget and the unobligated budget balance. The report is sectioned by Department, Fund and Unit and summarized by Object.

**City of Tucson
Budget vs Actual Expenses
Through: December, 2016
For Fiscal Year 2016**

Department 900 - TUCSON SUPPL RETIREMENT SYSTEM
Fund 072 - TUCSON SUPP RETIREMENT SYSTEM
Unit 9001 - Normal Retiree Benefit

Object	Current Period Encumbrance	Current Period Expenditure	Current Total Obligations	YTD Encumbrance	YTD Expenditure	YTD Total Obligations	Current Budgeted Amount	Unobligated Budget Balance	Percent
105 - PAYROLL PENSION	0.00	5,070,381.37	5,070,381.37	0.00	30,332,991.46	30,332,991.46	63,300,000	32,967,008.54	52.08 %
Total for 100 - PAYROLL CHGS	0.00	5,070,381.37	5,070,381.37	0.00	30,332,991.46	30,332,991.46	63,300,000	32,967,008.54	52.08 %
Total for Unit 9001 - Normal Retiree Benefit	0.00	5,070,381.37	5,070,381.37	0.00	30,332,991.46	30,332,991.46	63,300,000	32,967,008.54	52.08 %

**City of Tucson
Budget vs Actual Expenses
Through: December, 2016
For Fiscal Year 2016**

Department 900 - TUCSON SUPPL RETIREMENT SYSTEM
Fund 072 - TUCSON SUPP RETIREMENT SYSTEM
Unit 9003 - Normal Retiree Beneficiary Benefit

Object	Current Period Encumbrance	Current Period Expenditure	Current Total Obligations	YTD Encumbrance	YTD Expenditure	YTD Total Obligations	Current Budgeted Amount	Unobligated Budget Balance	Percent
105 - PAYROLL PENSION	0.00	294,393.80	294,393.80	0.00	1,738,712.23	1,738,712.23	3,100,000	1,361,287.77	43.91 %
Total for 100 - PAYROLL CHGS	0.00	294,393.80	294,393.80	0.00	1,738,712.23	1,738,712.23	3,100,000	1,361,287.77	43.91 %
Total for Unit 9003 - Normal Retiree Beneficiary Benefi	0.00	294,393.80	294,393.80	0.00	1,738,712.23	1,738,712.23	3,100,000	1,361,287.77	43.91 %

**City of Tucson
Budget vs Actual Expenses
Through: December, 2016
For Fiscal Year 2016**

Department 900 - TUCSON SUPPL RETIREMENT SYSTEM
Fund 072 - TUCSON SUPP RETIREMENT SYSTEM
Unit 9020 - Disability Retiree Benefit

Object	Current Period Encumbrance	Current Period Expenditure	Current Total Obligations	YTD Encumbrance	YTD Expenditure	YTD Total Obligations	Current Budgeted Amount	Unobligated Budget Balance	Percent
105 - PAYROLL PENSION	0.00	168,895.81	168,895.81	0.00	1,027,432.07	1,027,432.07	1,975,000	947,567.93	47.98 %
Total for 100 - PAYROLL CHGS	0.00	168,895.81	168,895.81	0.00	1,027,432.07	1,027,432.07	1,975,000	947,567.93	47.98 %
Total for Unit 9020 - Disability Retiree Benefit	0.00	168,895.81	168,895.81	0.00	1,027,432.07	1,027,432.07	1,975,000	947,567.93	47.98 %

Run Date : 01/22/2016

Run Time : 11:08 AM

City of Tucson
Budget vs Actual Expenses
Through: December, 2016
For Fiscal Year 2016

Department 900 - TUCSON SUPPL RETIREMENT SYSTEM
Fund 072 - TUCSON SUPP RETIREMENT SYSTEM
Unit 9021 - Pension Fund Administration

Object	Current Period Encumbrance	Current Period Expenditure	Current Total Obligations	YTD Encumbrance	YTD Expenditure	YTD Total Obligations	Current Budgeted Amount	Unobligated Budget Balance	Percent
101 - SALARIES & WAGES FOR PERMANENT EMPLOYEES	0.00	11,600.00	11,600.00	0.00	103,655.12	103,655.12	211,940	108,284.88	51.09 %
108 - DOWNTOWN ALLOWANCE & DISCOUNTED TRANSIT PASSES	0.00	69.24	69.24	0.00	520.96	520.96	1,160	639.04	55.09 %
113 - TSRS PENSION CONTRIBUTION	0.00	3,190.00	3,190.00	0.00	28,505.15	28,505.15	58,280	29,774.85	51.09 %
114 - FICA (SOCIAL SECURITY)	0.00	868.84	868.84	0.00	8,872.57	8,872.57	15,410	6,537.43	42.42 %
115 - WORKERS COMPENSATION INSURANCE	0.00	230.19	230.19	0.00	1,401.58	1,401.58	5,930	4,528.42	76.36 %
116 - GROUP PLAN INSURANCE	0.00	1,811.50	1,811.50	0.00	14,395.66	14,395.66	30,920	16,524.34	53.44 %
117 - STATE UNEMPLOYMENT	0.00	17.34	17.34	0.00	110.85	110.85	300	189.15	63.05 %
171 - SICK LEAVE PAID AT RETIREMENT	0.00	0.00	0.00	0.00	14,217.42	14,217.42	0	(14,217.42)	0.00%
196 - INTERDEPARTMENTAL LABOR	0.00	9,016.66	9,016.66	0.00	54,099.96	54,099.96	220,800	166,700.04	75.50 %
Total for 100 - PAYROLL CHGS	0.00	26,803.77	26,803.77	0.00	225,779.27	225,779.27	544,740	318,960.73	58.55 %
202 - TRAVEL	0.00	0.00	0.00	0.00	1,859.49	1,859.49	4,000	2,140.51	53.51 %
204 - TRAINING	0.00	0.00	0.00	0.00	165.00	165.00	14,000	13,835.00	98.82 %
205 - PARKING & SHUTTLE SERVICE	0.00	0.00	0.00	0.00	110.00	110.00	200	90.00	45.00 %
212 - CONSULTANTS AND SURVEYS	0.00	0.00	0.00	0.00	41,910.00	41,910.00	65,000	23,090.00	35.52 %
213 - LEGAL	0.00	0.00	0.00	0.00	17,442.00	17,442.00	50,000	32,558.00	65.12 %
215 - AUDITING AND BANK SERVICES	0.00	0.00	0.00	0.00	11,000.00	11,000.00	0	(11,000.00)	0.00%
219 - MISCELLANEOUS PROFESSIONAL SERVICES	0.00	887,092.64	887,092.64	0.00	657,484.30	657,484.30	4,059,500	3,402,015.70	83.80 %
221 - INSUR-PUBLIC LIABILITY	0.00	155.97	155.97	0.00	956.48	956.48	29,160	28,203.52	96.72 %

Run Date : 01/22/2016

Run Time : 11:08 AM

City of Tucson
Budget vs Actual Expenses
Through: December, 2016
For Fiscal Year 2016

Department 900 - TUCSON SUPPL RETIREMENT SYSTEM

Fund 072 - TUCSON SUPP RETIREMENT SYSTEM

Unit 9021 - Pension Fund Administration

Object	Current Period Encumbrance	Current Period Expenditure	Current Total Obligations	YTD Encumbrance	YTD Expenditure	YTD Total Obligations	Current Budgeted Amount	Unobligated Budget Balance	Percent
228 - HAZARDOUS WASTE INSURANCE	0.00	27.84	27.84	0.00	203.24	203.24	560	356.76	63.71 %
232 - R&M MACHINERY & EQUIPMENT	0.00	0.00	0.00	0.00	0.00	0.00	1,200	1,200.00	100.00 %
245 - TELEPHONE	0.00	0.00	0.00	0.00	840.00	840.00	1,200	360.00	30.00 %
252 - RENTS EQUIPMENT	0.00	60.62	60.62	0.00	451.33	451.33	0	(451.33)	0.00%
260 - COMPUTER SOFTWARE MAINTENANCE AGREEMENTS	0.00	0.00	0.00	0.00	0.00	0.00	41,000	41,000.00	100.00 %
263 - PUBLIC RELATIONS	0.00	0.00	0.00	0.00	2,043.09	2,043.09	2,560	516.91	20.19 %
266 - ADVERTISING	0.00	411.50	411.50	0.00	411.50	411.50	0	(411.50)	0.00%
284 - MEMBERSHIPS AND SUBSCRIPTIONS	0.00	0.00	0.00	0.00	305.00	305.00	1,500	1,195.00	79.67 %
Total for 200 - PROF CHARGES	0.00	887,748.57	887,748.57	0.00	735,181.43	735,181.43	4,269,880	3,534,698.57	82.78 %
311 - OFFICE SUPPLIES	0.00	292.24	292.24	0.00	1,040.32	1,040.32	7,500	6,459.68	86.13 %
312 - PRINTING,PHOTOGRAPHY,REPRODUCTION	0.00	5.44	5.44	0.00	2,503.11	2,503.11	7,500	4,996.89	66.63 %
314 - POSTAGE	0.00	0.00	0.00	0.00	1,612.10	1,612.10	10,000	8,387.90	83.88 %
341 - BOOK, PERIODICALS AND RECORDS	0.00	0.00	0.00	0.00	0.00	0.00	250	250.00	100.00 %
345 - FURNISHINGS, EQUIPMENT AND TOOLS < \$5,000	0.00	0.00	0.00	0.00	0.00	0.00	1,000	1,000.00	100.00 %
346 - COMPUTER EQUIPMENT < \$5,000	0.00	0.00	0.00	0.00	0.00	0.00	1,000	1,000.00	100.00 %
Total for 300 - SUPPLIES	0.00	297.68	297.68	0.00	5,155.53	5,155.53	27,250	22,094.47	81.08 %
Total for Unit 9021 - Pension Fund Administration	0.00	914,850.02	914,850.02	0.00	966,116.23	966,116.23	4,841,870	3,875,753.77	80.05 %

**City of Tucson
Budget vs Actual Expenses
Through: December, 2016
For Fiscal Year 2016**

Department 900 - TUCSON SUPPL RETIREMENT SYSTEM
Fund 072 - TUCSON SUPP RETIREMENT SYSTEM
Unit 9022 - Disability Retiree Beneficiary Benefit

Object	Current Period Encumbrance	Current Period Expenditure	Current Total Obligations	YTD Encumbrance	YTD Expenditure	YTD Total Obligations	Current Budgeted Amount	Unobligated Budget Balance	Percent
105 - PAYROLL PENSION	0.00	30,418.52	30,418.52	0.00	183,816.48	183,816.48	350,000	166,183.52	47.48 %
Total for 100 - PAYROLL CHGS	0.00	30,418.52	30,418.52	0.00	183,816.48	183,816.48	350,000	166,183.52	47.48 %
Total for Unit 9022 - Disability Retiree Beneficiary Ben	0.00	30,418.52	30,418.52	0.00	183,816.48	183,816.48	350,000	166,183.52	47.48 %

**City of Tucson
Budget vs Actual Expenses
Through: December, 2016
For Fiscal Year 2016**

Department 900 - TUCSON SUPPL RETIREMENT SYSTEM
Fund 072 - TUCSON SUPP RETIREMENT SYSTEM
Unit 9023 - ACTIVE MEMBER REFUNDS-CONTRBS

Object	Current Period Encumbrance	Current Period Expenditure	Current Total Obligations	YTD Encumbrance	YTD Expenditure	YTD Total Obligations	Current Budgeted Amount	Unobligated Budget Balance	Percent
105 - PAYROLL PENSION	0.00	744.57	744.57	0.00	2,233.71	2,233.71	0	(2,233.71)	0.00%
186 - TSRS REFUNDS	0.00	246,357.17	246,357.17	0.00	1,724,123.30	1,724,123.30	2,400,000	675,876.70	28.16 %
Total for 100 - PAYROLL CHGS	0.00	247,101.74	247,101.74	0.00	1,726,357.01	1,726,357.01	2,400,000	673,642.99	28.07 %
Total for Unit 9023 - ACTIVE MEMBER REFUNDS-CON	0.00	247,101.74	247,101.74	0.00	1,726,357.01	1,726,357.01	2,400,000	673,642.99	28.07 %

**City of Tucson
Budget vs Actual Expenses
Through: December, 2016
For Fiscal Year 2016**

Department 900 - TUCSON SUPPL RETIREMENT SYSTEM
Fund 072 - TUCSON SUPP RETIREMENT SYSTEM
Unit 9025 - INTEREST ON REFUNDS

Object	Current Period Encumbrance	Current Period Expenditure	Current Total Obligations	YTD Encumbrance	YTD Expenditure	YTD Total Obligations	Current Budgeted Amount	Unobligated Budget Balance	Percent
186 - TSRS REFUNDS	0.00	6,975.59	6,975.59	0.00	23,063.64	23,063.64	50,000	26,936.36	53.87 %
Total for 100 - PAYROLL CHGS	0.00	6,975.59	6,975.59	0.00	23,063.64	23,063.64	50,000	26,936.36	53.87 %
Total for Unit 9025 - INTEREST ON REFUNDS	0.00	6,975.59	6,975.59	0.00	23,063.64	23,063.64	50,000	26,936.36	53.87 %

**City of Tucson
Budget vs Actual Expenses
Through: December, 2016
For Fiscal Year 2016**

Department 900 - TUCSON SUPPL RETIREMENT SYSTEM
Fund 072 - TUCSON SUPP RETIREMENT SYSTEM
Unit 9026 - DWE SYSTEM BENEFIT PAYMENT

Object	Current Period Encumbrance	Current Period Expenditure	Current Total Obligations	YTD Encumbrance	YTD Expenditure	YTD Total Obligations	Current Budgeted Amount	Unobligated Budget Balance	Percent
186 - TSRS REFUNDS	0.00	0.00	0.00	0.00	61,918.40	61,918.40	200,000	138,081.60	69.04 %
Total for 100 - PAYROLL CHGS	0.00	0.00	0.00	0.00	61,918.40	61,918.40	200,000	138,081.60	69.04 %
Total for Unit 9026 - DWE SYSTEM BENEFIT PAYMENT	0.00	0.00	0.00	0.00	61,918.40	61,918.40	200,000	138,081.60	69.04 %

**City of Tucson
Budget vs Actual Expenses
Through: December, 2016
For Fiscal Year 2016**

Department 900 - TUCSON SUPPL RETIREMENT SYSTEM
Fund 072 - TUCSON SUPP RETIREMENT SYSTEM
Unit 9027 - CREDITABLE SERVICE TRANS(ASRS)

Object	Current Period Encumbrance	Current Period Expenditure	Current Total Obligations	YTD Encumbrance	YTD Expenditure	YTD Total Obligations	Current Budgeted Amount	Unobligated Budget Balance	Percent
186 - TSRS REFUNDS	0.00	0.00	0.00	0.00	(8,811.37)	(8,811.37)	0	8,811.37	0.00%
Total for 100 - PAYROLL CHGS	0.00	0.00	0.00	0.00	(8,811.37)	(8,811.37)	0	8,811.37	0.00%
Total for Unit 9027 - CREDITABLE SERVICE TRANS(A'	0.00	0.00	0.00	0.00	(8,811.37)	(8,811.37)	0	8,811.37	0.00%
Total for Fund 072 - TUCSON SUPP RETIREMENT SYS	0.00	6,733,016.85	6,733,016.85	0.00	36,051,596.15	36,051,596.15	76,216,870	40,165,273.85	52.70 %
Total for Department 900 - TUCSON SUPPL RETIREME	0.00	6,733,016.85	6,733,016.85	0.00	36,051,596.15	36,051,596.15	76,216,870	40,165,273.85	52.70 %
Grand Totals	0.00	6,733,016.85	6,733,016.85	0.00	36,051,596.15	36,051,596.15	76,216,870	40,165,273.85	52.70 %

January 21, 2016

Silvia Amparano, CPA
Finance Director
City of Tucson
255 West Alameda Street
Tucson, Arizona 85701

Re: Impact of Retirement Incentive to the Tucson Supplemental Retirement System (TSRS)

Dear Silvia:

Per your request, we are providing analysis of a proposed Retirement Incentive program and its potential effect on the TSRS. Under the proposed Retirement Incentive, members who choose to retire within a certain period of time would be eligible to receive an additional 3 months of pay at termination. This additional pay would not be considered in determining the Average Final Compensation under the plan and would be paid by the City.

This study examines the impact to TSRS assuming that the additional retirements created by the Retirement Incentive reduce payroll and no replacement is hired. While this will have the intended effect of reducing payroll, it will also increase the actuarial contribution rate needed to fund the plan since the amortization payment on the unfunded liability will be spread over a smaller payroll base.

In addition to the reduced contribution payroll, the potential accelerated retirements increase the projected benefits payable from the plan and increase accrued liabilities. Likewise, the dollar amount of normal costs decreases since there is a commensurate decrease in the active population.

STUDY APPROACH

Demographic Assumptions

The impacts to the System and City are very dependent on the number of members that opt to participate in the Retirement Incentive. Currently 464 members are eligible for unreduced retirement in the first year following the valuation date of June 30, 2015. The total valuation payroll as of June 30, 2015 is \$123.4 million. The valuation payroll for the 464 members eligible for unreduced retirement in the first year is \$27.2 million.

Of those 464, 133 are already anticipated to retire using current retirement rate assumptions. In projection studies, those 133 retirements are typically expected to be replaced by new hires. The study examined the impact of 100, 200, 300 and 331 additional retirements (331 produces 100% retirement of those eligible (331 + 133 = 464)) where the additional retirements were not replaced in year 2 of the projection.

Funding/Contribution Assumptions

The current funding policy calls for contributions based on the Actuarial Required Contribution (“ARC”) based on the normal cost plus a 20-year level percentage of pay amortization of the unfunded liability plus administrative expenses, but not less than 27.50%. In addition, there is a roundup policy on employee and employer contributions. When factoring in the funding policy, some scenarios result in unchanged rates (27.50%) whereas others require high contributions for the first year or two before the ultimate 27.50% rate. To be able to isolate the impact of the additional retirements in a comparable way, we have examined the impact from two different perspectives:

1. Assuming the employer contributes on an actuarial basis (ARC Funding) without the 27.5% minimum
 - On this basis, the City contribution rate will vary as a percentage of pay across scenarios
2. Assuming the employer contributes on an actuarial basis (ARC Funding) without the 27.5% minimum. The ARC will be calculated using a 20-year level percentage of pay amortization of the baseline unfunded and a five-year level dollar amortization of the increased liability created from the Retirement Incentive. It may be prudent to accelerate the funding of this liability as the membership associated with the Retirement Incentive will be part of the inactive, non-contributory membership.
3. Assuming the employer contributes 27.5% of pay
 - On this basis, the time until full funding will vary. This is because the smaller payroll will provide less money to pay off the unfunded liability with the fixed contribution rate.

ACTUARIAL RESULTS

As noted, the acceleration of retirement increases the System’s liability. Earlier retirement increases the expected years of benefit payments during the retiree’s life and increases liabilities for an individual member. An additional 100 retirements during fiscal year 2016 is expected to increase System accrued liability by \$4.3 million.

ARC Funding Approach

The ARC as a percentage of pay increases with the increased retirements, largely because the amortization rate increases as the payroll base shrinks. An additional 100 retirements during fiscal year 2016 without subsequent payroll replacement of those 100 retirements, increases the employer ARC rate from 25.52% to 26.69%.

The employer ARC as a dollar amount decreases. An additional 100 retirements reduces the employer fiscal year 2017 contribution from \$31.8 million to \$31.6 million. This is due to the fact that less active members are accruing benefits under the plan and the dollar normal cost is reduced. It should be stressed that the incentive does not make the plan design cheaper on a per-person basis (and in fact the accelerated retirements make the design more expensive). The reduced dollar cost

is simply due to the fact that the plan is providing benefits to fewer members. On a per active member basis, with 100 additional retirements, the ARC increases from \$11,932 to \$12,320.

ARC Funding Approach with Five-year Amortization of Retirement Incentive Liability

The ARC as a percentage of pay increases with the increased retirements, because the amortization rate increases as the payroll base shrinks and an additional amortization payment is due to fund the Retirement Incentive. An additional 100 retirements during fiscal year 2016 without subsequent payroll replacement of those 100 retirements, increases the employer ARC rate from 25.52% to 27.29%.

The employer ARC as a dollar amount increases. An additional 100 retirements increases the employer fiscal year 2017 contribution from \$31.8 million to \$32.3 million. On a per active member basis, with 100 additional retirements, the ARC increases from \$11,932 to \$12,593.

Level 27.5% Funding Approach

Assuming the City contributes of 27.5% until full funding, the variable item will be the time until full funding. The dollar amount contributed will be reduced as the total payroll is reduced. This will reduce the amount available to fund the unfunded liability and increase the time to full funding since the contribution will first go toward payment of the normal cost. An additional 100 retirements increases the time to full funding by one year, from 2031 to 2032.

The following shows the study results assuming 0, 100, 200, 300 or 331 additional retirements during fiscal year 2016 which go un-replaced in future years.

\$ in millions and assuming a 3.25% annual growth in payroll after year 2

Number of Increased Retirements	0	100	200	300	331
FY 2017 Payroll	\$124.6	\$118.5	\$112.5	\$106.4	\$104.6
Estimated Reduction in Payroll	\$0.0	\$6.1	\$12.1	\$18.2	\$20.0
Estimated 3 Month Payout	\$0.0	\$1.5	\$3.0	\$4.6	\$5.0
Expected Active Members	2,665	2,565	2,465	2,365	2,334
Accrued Liability as of June 30, 2015	\$1,021.4	\$1,025.7	\$1,029.9	\$1,034.3	\$1,035.5
Increase from Baseline	\$0.0	\$4.3	\$8.6	\$12.9	\$14.2
ARC Funding					
Employer ARC % - FY 2017	25.52%	26.69%	27.98%	29.42%	29.90%
Increase from Baseline	0.00%	1.17%	2.46%	3.90%	4.38%
Employer ARC \$	\$31.8	\$31.6	\$31.5	\$31.3	\$31.3
Increase from Baseline	\$0.0	(\$0.2)	(\$0.3)	(\$0.5)	(\$0.5)
Employer ARC \$ (per active member, not in millions)	\$11,932	\$12,320	\$12,779	\$13,235	\$13,410
Increase from Baseline		\$388	\$847	\$1,303	\$1,478
ARC Funding w/ 5-Year Amort of ERI					
Employer ARC % - FY 2017	25.52%	27.29%	29.24%	31.43%	32.14%
Increase from Baseline	0.00%	1.77%	3.72%	5.91%	6.62%
Employer ARC \$	\$31.8	\$32.3	\$32.9	\$33.4	\$33.6
Increase from Baseline	\$0.0	\$0.5	\$1.1	\$1.6	\$1.8
Employer ARC \$ (per active member, not in millions)	\$11,932	\$12,593	\$13,347	\$14,123	\$14,396
Increase from Baseline		\$661	\$1,415	\$2,191	\$2,464
27.5% City Contribution Until Full Funding					
Employer Contribution Rate	27.50%	27.50%	27.50%	27.50%	27.50%
Employer Contribution \$	\$34.3	\$32.6	\$30.9	\$29.3	\$28.8
Increase from Baseline	\$0.0	(\$1.7)	(\$3.4)	(\$5.0)	(\$5.5)
Estimated Year of Full Funding	2031	2032	2033	2035	2035

IMPORTANCE OF PAYROLL GROWTH FOR TSRS

Both the actuarial valuation and the funding projections of TSRS assume that the total payroll of the plan will increase by 3.25% per year. However, over the last 10 years, the valuation payroll has declined from its peak of \$162 million to its current level of \$123 million, a decline of 24%. This has been largely due to a declining population (3,609 in 2005 and 2,665 in 2015).

June 30,	Counts	Increase	Payroll	Increase	Average Pay	Increase
2005	3,609		\$ 162,149,200		\$ 44,929	
2006	3,247	-10.0%	155,855,162	-3.9%	48,000	6.8%
2007	3,326	2.4%	159,249,822	2.2%	47,880	-0.2%
2008	3,251	-2.3%	153,982,399	-3.3%	47,365	-1.1%
2009	3,175	-2.3%	149,924,649	-2.6%	47,220	-0.3%
2010	2,982	-6.1%	141,459,257	-5.6%	47,438	0.5%
2011	2,628	-11.9%	121,631,362	-14.0%	46,283	-2.4%
2012	2,718	3.4%	125,003,023	2.8%	45,991	-0.6%
2013	2,750	1.2%	125,857,903	0.7%	45,767	-0.5%
2014	2,714	-1.3%	126,639,423	0.6%	46,662	2.0%
2015	2,665	-1.8%	123,414,560	-2.5%	46,309	-0.8%

TSRS is funded through a percentage of pay applied each fiscal year. To the extent that actual payroll during the fiscal year does not meet payroll expectations, the full amortization payment on the unfunded liability does not get contributed. For example, assume the amortization payment was \$1 million and total payroll was expected to be \$10 million. The amortization payment is calculated as 10% (\$1/\$10). However, if actual pay during the fiscal year is \$9.5 million, 10% of pay is only \$0.95 million is contributed, leaving a \$0.05 million shortfall. The actuarial valuation adjusts the calculation each year based on current payroll; however, it always assumes an increasing payroll trajectory from the new starting point.

Given that TSRS payroll has been decreasing in recent years and that the City is still looking at ways to further reduce the payroll, TSRS may wish to examine the methodology used in the calculation of the Actuarial Required Contribution, specifically the level percentage of pay amortization with a 3.25% payroll increase assumption. TSRS may also wish to do a sensitivity analysis to examine the long-term effects of assuming a 3.25% payroll increase, but realizing stagnant or negative payroll growth.

GASB 68 CONSIDERATIONS

The Retirement Incentive would likely increase the fiscal year 2016 City Pension Expense. If treated as a plan change, the increase in Total Pension Liability created would be recognized in the Pension Expense immediately. If treated as a difference between actual and expected experience the increase in Total Pension Liability created would be recognized over the Average Working Lifetime of the plan membership. GRS would look to the City auditor for guidance on the recognition timing.

CONCLUSIONS

If it is the objective of the Board to recover any costs to TSRS associated with the retirement incentive program then there are a variety of approaches to consider:

1. Request the actual change in the accrued liability as a lump sum contribution (this reflects a policy of having retirement benefits fully paid at the moment of retirement);
2. Request the funding policy to be enhanced beyond the 27.50% to pay for the additional accrued liability over a given period of time (while the current plan amortizes gains and

losses over 20 years, we recommend the Board consider a shorter time period since the liabilities are for members immediately entering pay status).

CLOSING

The analysis shown in this report is based on the June 30, 2015 actuarial valuation and assumptions. The projection assumes constant active member population after the first year reduction. For example, in the 100 additional retirement scenario, there are 2,665 at the valuation date, 2,565 in the second year of the projection and 2,565 assumed thereafter. The projection assumes 3.25% wage inflation in new entrant payroll.

The projection results are considered to be for purposes of making funding decisions. The results presented herein may not be applicable for other purposes.

The actuarial assumptions represent estimates of future experience and are not market measures. The results of any actuarial valuation and projection are dependent upon the actuarial assumptions used. Actual results (and future measures) can and almost certainly will differ, as actual experience deviates from the assumptions. Even seemingly minor changes in the assumptions can materially change the liabilities, calculated contribution rates and funding periods. Due to the limited scope of our assignment, we did not perform an analysis of the potential range of future actuarial measurements. The actuarial calculations presented in this Report are intended to provide information for rational decision making.

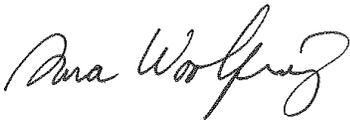
The undersigned are independent actuaries and consultants. Leslie Thompson and Dana Woolfrey are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

Sincerely,

Gabriel, Roeder, Smith & Company



Leslie Thompson, FSA, FCA, EA, MAAA
Senior Consultant



Dana Woolfrey, FSA, FCA, EA, MAAA
Consultant

TSRS Investment Manager Fee Schedules

Manager	Fee Schedule
Aberdeen	0.80% of all assets
AllianceBernstein	0.04% of all assets
American Century	0.95% of all assets
BlackRock	0.55% of first \$5M 0.45% of next \$20M 0.35% of next \$75M 0.30% thereafter
Causeway	0.75% of first \$10M 0.65% of next \$40M 0.50% of next \$50M 0.45% thereafter
Champlain	0.85% of first \$50M 0.75% of next \$50M 0.65% thereafter
JP Morgan Real Estate Income and Growth	1.75% of less than \$25M 1.50% of \$25M or more
JP Morgan Strategic Property	1.00% of participant's pro-rata share of the net asset value of SPF, except that the fee will only be 0.15% with respect to the market value of cash and cash equivalents in SPF in excess of a 7.5% reserve position for cash and cash equivalents. There shall be no acquisition or disposition fees or fees charged on any debt existing on any asset of SPF.
LaSalle	Management Fee: 1.35% Acquisition Fee: 0.60% of the gross cost of each real property acquisition. Performance Fee: 20% of all dividends paid to shareholders by the fund
Maquarie	The management fee for the Fund is 1.5%, with the City of Tucson receiving a 0.25% rebate. The performance fee for the Fund is 20% of the returns of the Fund over an 8% hurdle with an 80/20 catch up mechanism. No performance fees have been paid from the Fund yet.
Pyramis (Fidelity)	0.80% of first \$25M 0.60% over \$25M
PIMCO	0.50% of first \$100M 0.45% of next \$100M 0.40% thereafter
SteelRiver	1.5% of TSRS share of invested capital each year (subject to offsets)
T. Rowe Price	0.50% of first \$50M 0.45% of next \$50M 0.40% on all assets when assets exceed \$100M 0.35% on all assets when assets exceed \$200M

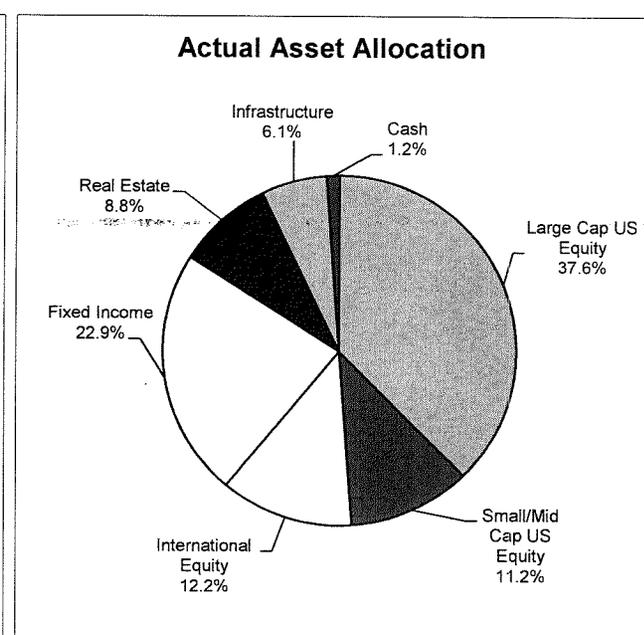
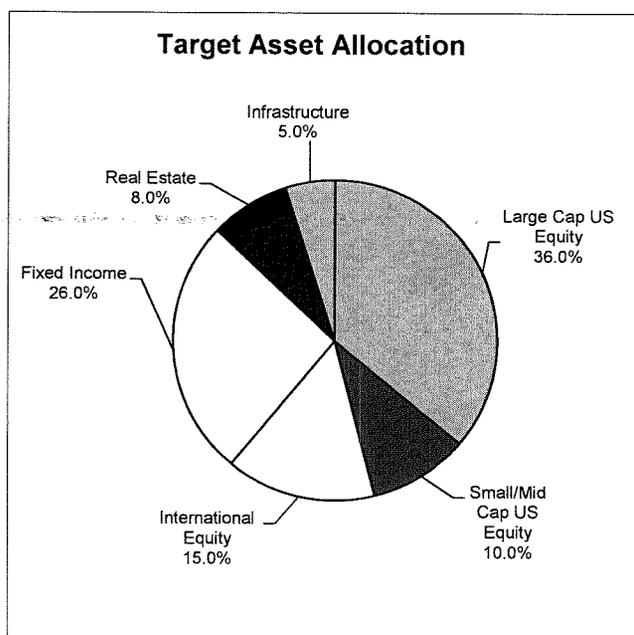
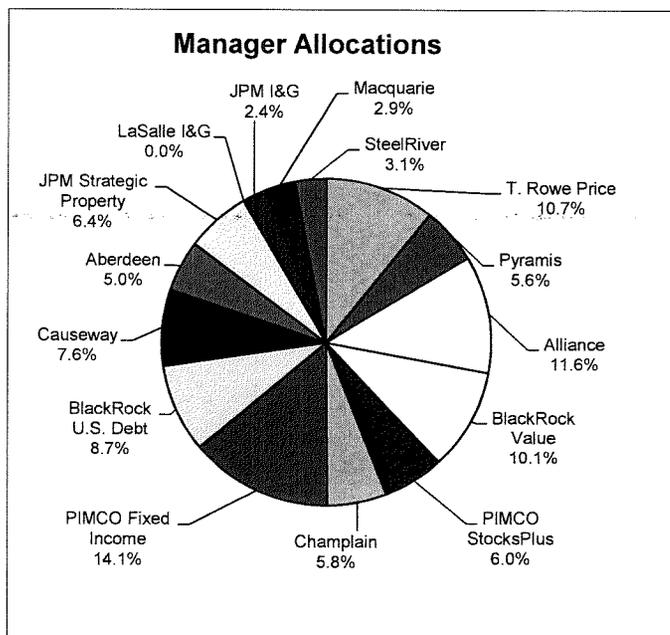
Manager Allocations Compared with Policy Levels

Monthly Report as of: 12/31/15

<i>Managers and Asset Class</i>	<i>Actual</i>		<i>Target</i>		<i>Differences</i>		<i>Range</i>		<i>Outside</i> <i>Range</i>
	<i>(000s)</i>	<i>%</i>	<i>(000s)</i>	<i>%</i>	<i>From Target</i>		<i>Min</i>	<i>Max</i>	
T. Rowe Price	\$ 76,025	10.7%	\$ 71,011	10.0%	0.7%	\$ 5,013	8.0%	12.0%	0.0%
Alliance (S&P 500)	82,078	11.6%	78,112	11.0%	0.6%	3,965	8.0%	14.0%	0.0%
BlackRock Value	71,275	10.0%	71,011	10.0%	0.0%	263	8.0%	12.0%	0.0%
PIMCO StocksPlus	42,498	6.0%	35,506	5.0%	1.0%	6,993	3.0%	7.0%	0.0%
Large Cap U.S. Equity	271,875	38.3%	255,641	36.0%	2.3%	16,234	31.0%	41.0%	0.0%
Pyramis	39,580	5.6%	35,506	5.0%	0.6%	4,074	3.0%	7.0%	0.0%
Champlain	41,179	5.8%	35,506	5.0%	0.8%	5,673	3.0%	7.0%	0.0%
Small/Mid Cap U.S. Equity	80,759	11.4%	71,011	10.0%	1.4%	9,747	6.0%	14.0%	0.0%
Causeway Capital Mgmt	53,474	7.5%	53,259	7.5%	0.0%	215	5.5%	9.5%	0.0%
Aberdeen Asset Mgmt	35,593	5.0%	53,259	7.5%	-2.5%	(17,666)	5.5%	9.5%	-0.5%
International Equity	89,066	12.5%	106,517	15.0%	-2.5%	(17,451)	13.0%	17.0%	-0.5%
Total Stocks	441,700	62.2%	433,169	61.0%	1.2%	8,531	56.0%	66.0%	0.0%
PIMCO Fixed Income	99,696	14.0%	113,618	16.0%	-2.0%	(13,922)	13.0%	19.0%	0.0%
BlackRock U.S. Debt	61,860	8.7%	71,011	10.0%	-1.3%	(9,152)	8.0%	12.0%	0.0%
Total Bonds	161,556	22.7%	184,630	26.0%	-3.3%	(23,074)	21.0%	31.0%	0.0%
JPM Strategic Property	44,966	6.3%	35,506	5.0%	1.3%	9,460	3.0%	7.0%	0.0%
LaSalle Income & Growth IV	3	0.0%	10,652	1.5%	-1.5%	(10,649)	0.0%	3.0%	0.0%
JPM Income & Growth	17,002	2.4%	10,652	1.5%	0.9%	6,350	0.0%	3.0%	0.0%
Total Real Estate	61,970	8.7%	56,809	8.0%	0.7%	5,161	6.0%	10.0%	0.0%
Macquarie	20,720	2.9%	17,753	2.5%	0.4%	2,967	1.5%	3.5%	0.0%
SteelRiver	21,945	3.1%	17,753	2.5%	0.6%	4,192	1.5%	3.5%	0.0%
Total Infrastructure	42,666	6.0%	35,506	5.0%	1.0%	7,160	3.0%	7.0%	0.0%
Liquidity Fund	2,222	0.3%	-						
Total Fund	\$ 710,113	100%	\$ 710,113	100%					

Allocation Summaries

As of: 12/31/15



Investment Manager Allocation:

<u>Investment Account</u>	<u>(000s)</u>
1 T. Rowe Price	\$ 76,025
2 Pyramis	39,580
3 Alliance	82,078
4 BlackRock Value	71,275
5 PIMCO StocksPlus	42,498
6 Champlain	41,179
7 PIMCO Fixed Income	99,696
8 BlackRock U.S. Debt	61,860
9 Causeway	53,474
10 Aberdeen	35,593
11 JPM Strategic Property	44,966
12 LaSalle I&G	3
13 JPM I&G	17,002
14 Macquarie	20,720
15 SteelRiver	21,945
Liquidity Account	2,222
Total Assets	\$ 710,113

Target Asset Allocation:

<u>Asset Class</u>	<u>(000s)</u>
Large Cap US Equity	255,641
Small/Mid Cap US Equity	71,011
International Equity	106,517
Fixed Income	184,630
Real Estate	56,809
Infrastructure	35,506
Total Assets	\$ 710,113

Actual Asset Allocation:

<u>Asset Class</u>	<u>(000s)</u>
Large Cap US Equity	264,812
Small/Mid Cap US Equity	79,258
International Equity	86,234
Fixed Income	161,556
Real Estate	61,970
Infrastructure	42,666
Cash	8,618
Total Assets	\$ 705,113

**TUCSON SUPPLEMENTAL RETIREMENT SYSTEM
CALENDAR YEAR 2015 PERFORMANCE BY MANAGER
NET OF FEES AND CUSTODIAL CHARGES**

	Total Fund	BlackRock U.S. Debt	PIMCO	Total Fixed	Alliance S&P 500	BlackRock Value	PIMCO StocksPlus	T.RowePrice	Pyramis	Champlain	Aberdeen	Causeway Capital	Total Equities	JP Morgan Strat Prop	LaSalle I & G	JP Morgan I & G	Total Real Estate	SteelRiver	Macquarie Capital	Total Infrastructure
JAN	-1.02%	2.10%	1.67%	-1.83%	-3.00%	-3.97%	-2.78%	-0.58%	-2.39%	-2.76%	-0.48%	-0.53%	-2.02%	0.47%	0.00%	-3.00%	1.14%	0.00%	-6.70%	-3.58%
FEB	3.76%	-0.92%	0.76%	0.12%	5.73%	4.86%	5.92%	6.73%	6.88%	5.94%	4.26%	4.42%	5.60%	1.85%	0.00%	0.00%	1.32%	-0.20%	2.16%	1.02%
MAR	-0.57%	0.44%	0.33%	0.37%	-1.58%	-1.37%	-1.46%	-0.55%	1.43%	0.83%	-2.74%	-1.12%	-0.93%	1.35%	2.61%	0.00%	1.00%	0.00%	-4.25%	-2.22%
APR	1.14%	-0.29%	0.20%	0.02%	0.95%	0.94%	0.77%	0.09%	-1.32%	1.02%	4.82%	4.89%	1.39%	0.90%	0.00%	3.36%	1.55%	0.00%	4.33%	2.22%
MAY	0.70%	-0.29%	0.12%	-0.03%	1.29%	1.21%	1.38%	2.03%	3.79%	1.47%	-2.01%	-1.14%	1.05%	1.02%	0.00%	0.00%	0.73%	1.47%	-2.16%	-0.43%
JUN	-1.08%	-1.10%	-1.77%	-1.52%	-1.92%	-1.93%	-2.11%	-1.20%	1.19%	0.06%	-4.19%	-2.71%	-1.66%	1.49%	24.40%	4.95%	2.45%	1.66%	3.61%	2.66%
JUL	1.16%	0.68%	0.57%	0.61%	2.12%	0.48%	2.15%	5.03%	1.16%	-1.52%	-1.48%	1.73%	1.55%	0.85%	0.00%	0.00%	0.61%	0.00%	-0.84%	-0.44%
AUG	-3.97%	-0.13%	-1.06%	-0.71%	-5.99%	-5.96%	-6.64%	-5.75%	-5.24%	-4.69%	-8.19%	-6.46%	-6.07%	0.97%	0.00%	0.00%	0.70%	0.00%	1.42%	0.74%
SEP	-3.20%	0.71%	-1.70%	-0.79%	-2.46%	-3.01%	-3.27%	-10.49%	-4.20%	-3.67%	-5.86%	-5.93%	-4.99%	1.30%	0.00%	0.00%	0.94%	-0.22%	1.41%	0.64%
OCT	4.38%	0.00%	2.26%	1.39%	2.29%	7.57%	8.68%	8.67%	3.97%	7.02%	7.51%	7.12%	6.41%	0.57%	0.00%	3.50%	1.37%	0.00%	-1.05%	-0.55%
NOV	0.50%	-0.26%	-0.54%	-0.43%	0.28%	0.41%	0.18%	0.35%	3.33%	1.53%	-2.78%	-2.04%	0.15%	1.52%	0.00%	0.00%	1.10%	19.98%	-6.30%	6.19%
DEC	-1.84%	-0.34%	-1.26%	-0.91%	-1.56%	-8.43%	-1.36%	-0.18%	-4.27%	-2.84%	-3.09%	-1.16%	-2.93%	1.00%	-95.71%	0.00%	0.63%	-3.93%	5.19%	0.29%
CYTD	-0.38%	0.56%	-0.51%	-0.10%	-4.28%	-9.80%	0.53%	2.70%	3.58%	1.69%	-14.34%	-2.78%	-3.18%	14.12%	-94.52%	15.64%	14.40%	18.40%	-3.99%	6.39%

Benchmark Returns:																				
Latest Month	-1.07%	-0.32%	-1.21%	-0.32%	-1.58%	-2.15%	-1.58%	-1.47%	-5.02%	-2.68%	-1.88%	-1.35%	-2.04%	3.34%	3.34%	3.34%	3.34%	-0.01%	-0.01%	-0.01%
Cldr Yr to Date	1.13%	0.57%	-0.61%	0.57%	1.41%	-3.84%	1.41%	5.68%	-4.42%	-2.45%	-5.66%	-0.82%	-0.68%	15.01%	15.01%	15.01%	15.01%	4.76%	4.76%	4.76%
Index	Custom Plan Index	Barclays Aggregate	Fixed Inc Custom	Barclays Aggregate	S & P 500	Russell 1000 Value	S & P 500	Russell 1000 Growth	Russell 2000	Russell Midcap	MSCI All Country Wld x-US N	MSCI EAFE Net Divd	Equity Composite	NCREIF-ODCE (1) (1)	NCREIF-ODCE (1) (1)	NCREIF-ODCE (1) (1)	NCREIF-ODCE (1) (1)	CPI + 4% (2)	CPI + 4% (2)	CPI + 4% (2)

(1) CYTD Index returns thru: 12/31/15

(2) CYTD Index returns thru: 12/31/15

**TUCSON SUPPLEMENTAL RETIREMENT SYSTEM
CALENDAR YEAR 2015 PERFORMANCE BY QUARTER
NET OF FEES AND CUSTODIAL CHARGES**

ACCOUNT & BENCHMARK	1st Quarter Ending 3/31/15	2nd Quarter Ending 6/30/15	3rd Quarter Ending 9/30/15	4th Quarter Ending 12/31/15	TOTAL TO DATE
TOTAL FUND	2.12%	0.75%	-5.96%	2.97%	-0.38%
CUSTOM PLAN INDEX	2.22%	0.14%	-4.58%	3.54%	1.13%
BLACKROCK U.S. DEBT INDEX	1.61%	-1.67%	1.26%	-0.60%	0.56%
BARCLAYS CAPITAL AGGREGATE	1.61%	-1.68%	1.24%	-0.56%	0.57%
PIMCO FIXED INCOME	2.78%	-1.46%	-2.19%	0.43%	-0.51%
FIXED INCOME CUSTOM INDEX	1.97%	-0.98%	-1.29%	-0.27%	-0.61%
TOTAL FIXED	2.33%	-1.53%	-0.89%	0.04%	-0.10%
BARCLAYS CAPITAL AGGREGATE	1.61%	-1.68%	1.24%	-0.56%	0.57%
ALLIANCE S&P INDEX	0.94%	0.29%	-6.36%	0.98%	-4.28%
S&P 500	0.96%	0.28%	-6.43%	7.05%	1.41%
BLACKROCK VALUE	-0.68%	0.19%	-8.35%	-1.09%	-9.80%
RUSSELL 1000 VALUE	-0.72%	0.10%	-8.40%	5.64%	-3.84%
PIMCO STOCKS PLUS	1.47%	0.01%	-7.75%	7.39%	0.53%
S&P 500	0.96%	0.28%	-6.43%	7.05%	1.41%
T. ROWE PRICE	5.53%	0.90%	-11.39%	8.85%	2.70%
RUSSELL 1000 GROWTH	3.84%	0.12%	-5.28%	7.31%	5.68%
PYRAMIS (FIDELITY)	5.82%	3.64%	-8.17%	2.84%	3.58%
RUSSELL 2000	4.31%	0.42%	-11.92%	3.59%	-4.42%
CHAMPLAIN	3.87%	2.57%	-9.58%	5.57%	1.69%
RUSSELL MIDCAP	3.96%	-1.54%	-8.01%	3.61%	-2.45%
ABERDEEN	0.92%	-1.59%	-14.85%	1.29%	-14.34%
MSCI AC WORLD EX U.S. - Net Divd	3.49%	0.53%	-12.17%	3.25%	-5.66%
CAUSEWAY	3.80%	0.88%	-10.48%	3.72%	-2.78%
MSCI EAFE - Net Divd	4.88%	0.62%	-10.24%	4.71%	-0.82%
TOTAL EQUITIES	2.50%	0.75%	-9.37%	3.45%	-3.18%
EQUITY COMPOSITE	2.47%	0.19%	-8.33%	5.55%	-0.68%
JP MORGAN STRAT PROP	3.71%	3.45%	3.15%	3.12%	14.12%
NCREIF PROP-ODCE (Est.)	3.39%	3.82%	3.68%	3.34%	15.01%
LASALLE I & G	2.61%	24.40%	0.00%	-95.71%	-94.52%
NCREIF PROP-ODCE (Est.)	3.39%	3.82%	3.68%	3.34%	15.01%
JP MORGAN I & G	3.00%	8.48%	0.00%	3.50%	15.64%
NCREIF PROP-ODCE (Est.)	3.39%	3.82%	3.68%	3.34%	15.01%
TOTAL REAL ESTATE	3.50%	4.80%	2.27%	3.13%	14.40%
NCREIF PROP-ODCE (Est.)	3.39%	3.82%	3.68%	3.34%	15.01%
STEELRIVER	-0.20%	3.15%	-0.22%	15.26%	18.40%
CPI + 4%	1.54%	2.06%	0.69%	0.39%	4.76%
MACQUARIE CAPITAL	-8.74%	5.76%	1.99%	-2.47%	-3.99%
CPI + 4%	1.54%	2.06%	0.69%	0.39%	4.76%
TOTAL INFRASTRUCTURE	-4.76%	4.49%	0.94%	5.91%	6.39%
CPI + 4%	1.54%	2.06%	0.69%	0.39%	4.76%

**TUCSON SUPPLEMENTAL RETIREMENT SYSTEM
FISCAL YEAR 2016 PERFORMANCE BY MANAGER
NET OF FEES AND CUSTODIAL CHARGES**

	Total Fund	BlackRock U.S. Debt	PIMCO	Total Fixed	Alliance S&P 500	BlackRock Value	PIMCO StocksPlus	T.RowePrice	Pyramis	Champlain	Aberdeen	Causeway Capital	Total Equities	JP Morgan Strat Prop	LaSalle I & G	JP Morgan I & G	Total Real Estate	SteelRiver	Macquarie Capital	Total Infrastructure
JUL	1.16%	0.68%	0.57%	0.61%	2.12%	0.48%	2.15%	5.03%	1.16%	-1.52%	-1.48%	1.73%	1.55%	0.85%	0.00%	0.00%	0.61%	0.00%	-0.84%	-0.44%
AUG	-3.97%	-0.13%	-1.06%	-0.71%	-5.99%	-5.96%	-6.64%	-5.75%	-5.24%	-4.69%	-8.19%	-6.46%	-6.07%	0.97%	0.00%	0.00%	0.70%	0.00%	1.42%	0.74%
SEP	-3.20%	0.71%	-1.70%	-0.79%	-2.46%	-3.01%	-3.27%	-10.49%	-4.20%	-3.67%	-5.86%	-5.93%	-4.99%	1.30%	0.00%	0.00%	0.94%	-0.22%	1.41%	0.64%
OCT	4.38%	0.00%	2.26%	1.39%	2.29%	7.57%	8.68%	8.67%	3.97%	7.02%	7.51%	7.12%	6.41%	0.57%	0.00%	3.50%	1.37%	0.00%	-1.05%	-0.55%
NOV	0.50%	-0.26%	-0.54%	-0.43%	0.28%	0.41%	0.18%	0.35%	3.33%	1.53%	-2.78%	-2.04%	0.15%	1.52%	0.00%	0.00%	1.10%	19.98%	-6.30%	6.19%
DEC	-1.84%	-0.34%	-1.26%	-0.91%	-1.56%	-8.43%	-1.36%	-0.18%	-4.27%	-2.84%	-3.09%	-1.16%	-2.93%	1.00%	-95.71%	0.00%	0.63%	-3.93%	5.19%	0.29%
JAN	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
FEB	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
MAR	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
APR	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
MAY	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
JUN	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
FYTD	-3.17%	0.66%	-1.77%	-0.86%	-5.44%	-9.36%	-0.93%	-3.55%	-5.55%	-4.55%	-13.75%	-7.16%	-6.25%	6.37%	-95.71%	3.50%	5.47%	15.01%	-0.53%	6.91%

Benchmark Returns:																				
Latest Month	-1.07%	-0.32%	-1.21%	-0.32%	-1.58%	-2.15%	-1.58%	-1.47%	-5.02%	-2.68%	-1.88%	-1.35%	-2.04%	3.34%	3.34%	3.34%	3.34%	-0.01%	-0.01%	-0.01%
Fiscal Yr to Date	-1.21%	0.68%	-1.56%	0.68%	0.17%	-3.23%	0.17%	1.64%	-8.75%	-4.69%	-9.32%	-6.01%	-3.25%	7.14%	7.14%	7.14%	7.14%	1.09%	1.09%	1.09%
Index	Custom Plan Index	Barclays Aggregate	Fixed Inc Custom	Barclays Aggregate	S & P 500	Russell 1000 Value	S & P 500	Russell 1000 Growth	Russell 2000	Russell Midcap	MSCI All Country Wld x-US N	MSCI EAFE Net Divd	Equity Composite	NCREIF - ODCE (1)	CPI + 4% (2)	CPI + 4% (2)	CPI + 4% (2)			

(1) FYTD Index returns thru: 12/31/15

(2) FYTD Index returns thru: 12/31/15

**TUCSON SUPPLEMENTAL RETIREMENT SYSTEM
ONE YEAR TO DATE PERFORMANCE BY MANAGER
NET OF FEES AND CUSTODIAL CHARGES**

	Total Fund	BlackRock U.S. Debt	PIMCO	Total Fixed	Alliance S&P 500	BlackRock Value	PIMCO StocksPlus	T.RowePrice	Pyramis	Champlain	Aberdeen	Causeway Capital	Total Equities	JP Morgan Strat Prop	LaSalle I & G	JP Morgan I & G	Total Real Estate	SteelRiver	Macquarie Capital	Total Infrastructure
DEC '14	-0.68%	0.15%	-1.34%	-0.78%	-0.24%	0.59%	-0.43%	-1.01%	2.55%	-0.99%	-3.97%	-3.28%	-0.79%	1.57%	0.00%	0.00%	1.12%	0.00%	-2.94%	-1.58%
JAN '15	-1.02%	2.10%	1.67%	1.83%	-3.00%	-3.97%	-2.78%	-0.58%	-2.39%	-2.76%	-0.48%	0.53%	-2.02%	0.47%	0.00%	3.00%	1.14%	0.00%	-6.70%	-3.58%
FEB '15	3.76%	-0.92%	0.76%	0.12%	5.73%	4.86%	5.92%	6.73%	6.88%	5.94%	4.26%	4.42%	5.60%	1.85%	0.00%	0.00%	1.32%	-0.20%	2.16%	1.02%
MAR '15	-0.57%	0.44%	0.33%	0.37%	-1.58%	-1.37%	-1.46%	-0.55%	1.43%	0.83%	-2.74%	-1.12%	-0.93%	1.35%	2.61%	0.00%	1.00%	0.00%	-4.25%	-2.22%
APR '15	1.14%	-0.29%	0.20%	0.02%	0.95%	0.94%	0.77%	0.09%	-1.32%	1.02%	4.82%	4.89%	1.39%	0.90%	0.00%	3.36%	1.55%	0.00%	4.33%	2.22%
MAY '15	0.70%	-0.29%	0.12%	-0.03%	1.29%	1.21%	1.38%	2.03%	3.79%	1.47%	-2.01%	-1.14%	1.05%	1.02%	0.00%	0.00%	0.73%	1.47%	-2.16%	-0.43%
JUN '15	-1.08%	-1.10%	-1.77%	-1.52%	-1.92%	-1.93%	-2.11%	-1.20%	1.19%	0.06%	-4.19%	-2.71%	-1.66%	1.49%	24.40%	4.95%	2.45%	1.66%	3.61%	2.66%
JUL '15	1.16%	0.68%	0.57%	0.61%	2.12%	0.48%	2.15%	5.03%	1.16%	-1.52%	-1.48%	1.73%	1.55%	0.85%	0.00%	0.00%	0.61%	0.00%	-0.84%	-0.44%
AUG '15	-3.97%	-0.13%	-1.06%	-0.71%	-5.99%	-5.96%	-6.64%	-5.75%	-5.24%	-4.69%	-8.19%	-6.46%	-6.07%	-0.97%	0.00%	0.00%	0.70%	0.00%	1.42%	0.74%
SEP '15	-3.20%	7.10%	-1.70%	-0.79%	-2.46%	-3.01%	-3.27%	-10.49%	-4.20%	-3.67%	-5.86%	-5.93%	-4.99%	1.30%	0.00%	0.00%	0.94%	-0.22%	1.41%	0.64%
OCT '15	4.38%	0.00%	2.26%	1.39%	2.29%	7.57%	8.68%	8.67%	3.97%	7.02%	7.51%	7.12%	6.41%	0.57%	0.00%	3.50%	1.37%	0.00%	-1.05%	-0.55%
NOV '15	0.50%	-0.26%	-0.54%	-0.43%	0.28%	0.41%	0.18%	0.35%	3.33%	1.53%	-2.78%	-2.04%	0.15%	1.52%	0.00%	0.00%	1.10%	19.98%	-6.30%	6.19%
DEC '15	-1.84%	-0.34%	-1.26%	-0.91%	-1.56%	-8.43%	-1.36%	-0.18%	-4.27%	-2.84%	-3.09%	-1.16%	-2.93%	1.00%	-95.71%	0.00%	0.63%	-3.93%	5.19%	0.29%
1-YTD	-1.40%	9.19%	1.15%	1.73%	-7.15%	-13.38%	-2.26%	2.10%	1.10%	-1.11%	-14.75%	-2.26%	-5.13%	12.45%	-94.52%	19.11%	15.70%	18.40%	-10.43%	2.58%

Benchmark Returns:																				
Latest Month	-1.07%	-0.32%	-1.21%	-0.32%	-1.58%	-2.15%	-1.58%	-1.47%	-5.02%	-2.68%	-1.88%	-1.35%	-2.04%	3.34%	3.34%	3.34%	3.34%	-0.01%	-0.01%	-0.01%
One Yr to Date	0.35%	2.68%	0.54%	2.68%	-1.63%	-7.69%	-1.63%	4.06%	-7.50%	-3.97%	-5.80%	-0.33%	-2.70%	15.01%	15.01%	15.01%	15.01%	4.62%	4.62%	4.62%
Index	Custom Plan Index	Barclays Aggregate	Fixed Inc Custom	Barclays Aggregate	S & P 500	Russell 1000 Value	S & P 500	Russell 1000 Growth	Russell 2000	Russell Midcap	MSCI All Country Wld x-US N	MSCI EAFE Net Divd	Equity Composite	NCREIF - ODCE (1)	CPI + 4% (2)	CPI + 4% (2)	CPI + 4% (2)			

(1) One Yr Index returns thru: 12/31/15

(2) One Yr Index returns thru: 12/31/15

**Tucson Supplemental Retirement System (TSRS)
 BNY Mellon - Securities Lending & Custodial Fee Summary
 FY16**

July 1, 2015 - June 30, 2016

	<i>Gross Earnings</i>	<i>Rebate Paid</i>	<i>Bank Fees</i>	<i>Gross Client Earnings</i>	<i>Administration Fee</i>	<i>FY16 Net Client Earnings</i>	<i>FY15 Net Client Earnings</i>	<i>FY16 Custodian Fees</i>	<i>FY15 Custodian Fees</i>
July	\$ 2,924	\$ (7,613)	\$ 4,214	\$ 6,323	\$ -	\$ 6,323	\$ 6,816	\$ -	\$ -
August	2,712	(7,968)	4,271	6,410	-	6,410	5,775	-	-
September	2,016	(10,251)	4,905	7,362	-	7,362	6,239	74,053	73,879
October	2,230	(10,678)	5,162	7,746	-	7,746	6,970	-	-
November	2,563	(6,447)	3,603	5,407	-	5,407	6,002	-	-
December	4,516	(8,780)	5,316	7,979	-	7,979	6,655	-	71,675
January	-	-	-	-	-	-	7,214	-	-
February	-	-	-	-	-	-	8,612	-	-
March	-	-	-	-	-	-	11,248	-	75,962
April	-	-	-	-	-	-	11,082	-	-
May	-	-	-	-	-	-	13,175	-	-
June	-	-	-	-	-	-	8,769	-	-
Totals	\$ 16,961	\$ (51,737)	\$ 27,471	\$ 41,226	\$ -	\$ 41,226	\$ 98,557	\$ 74,053	\$ 221,516

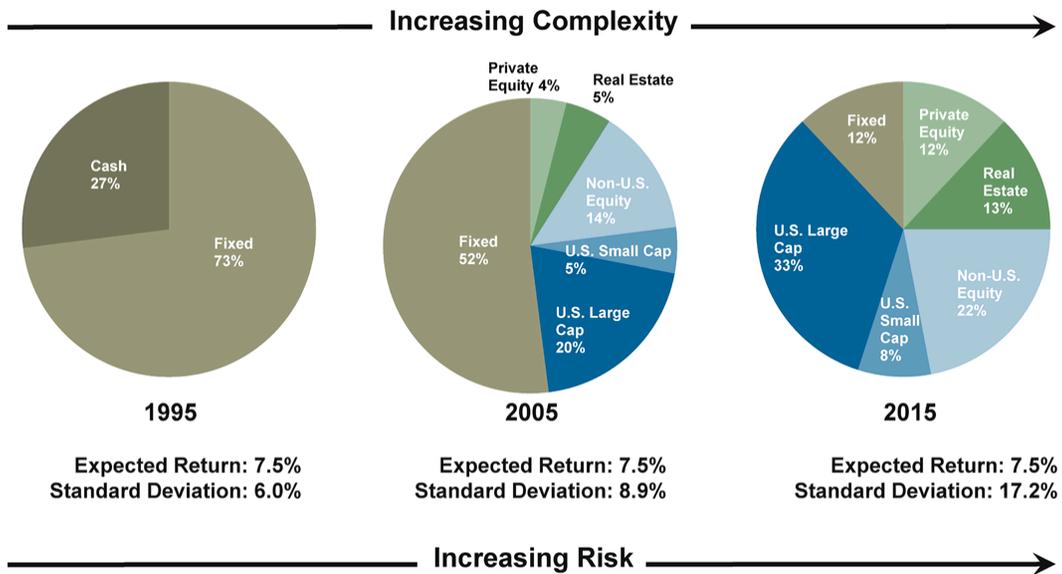
cross check: 41,226

TSRS											
Schedule of Cash Transfers Between Investment Accounts and/or Fund 072											
FY 16											
FROM (Transfers Out):				TO (Transfers In):				NOTES:			
Transfer Date	Account #	Account Desc.	Amount	Account #	Account Desc.	Amount					
07/17/15	TSRF1002002	Pyramis Small Cap Account	(2,000,000.00)	FUND 072 (1)	INVESTMENT POOL ACCOUNT	2,000,000.00					To meet cash liquidity needs & rebalance portfolio
07/13/15	TSRF4001002	JP Morgan Strategic Property Fund	(3.67)	TSRF2001002	Liquidity Cash Account	3.67					Automatic transfer of excess cash to liquidity account
07/16/15	TSRF5002002	SteelRiver IFNA	(216,262.81)	TSRF2001002	Liquidity Cash Account	216,262.81					Automatic transfer of excess cash to liquidity account
07/31/15	TSRF5002002	SteelRiver IFNA	(84,628.18)	TSRF2001002	Liquidity Cash Account	84,628.18					Automatic transfer of excess cash to liquidity account
08/13/15	TSRF5001002	Macquarie Capital Infrastructure Fund	(8,901.96)	TSRF2001002	Liquidity Cash Account	8,901.96					Automatic transfer of excess cash to liquidity account
09/30/15	TSRF10012002	T Rowe Price	(5,000,000.00)	FUND 072 (1)	INVESTMENT POOL ACCOUNT	5,000,000.00					To meet cash liquidity needs & rebalance portfolio
09/30/15	TSRF20010002	SteelRiver IFNA	(41,792.49)	TSRF2001002	Liquidity Cash Account	41,792.49					Automatic transfer of excess cash to liquidity account
10/29/15	TSRF10030002	Alliance S&P 500	(5,000,000.00)	FUND 072 (1)	INVESTMENT POOL ACCOUNT	5,000,000.00					To meet cash liquidity needs & rebalance portfolio
10/07/15	TSRF40010002	JP Morgan Strategic Property Fund	(3.06)	TSRF2001002	Liquidity Cash Account	3.06					Automatic transfer of excess cash to liquidity account
11/03/15	TSRF50010002	Macquarie Capital Infrastructure Fund	(409,921.51)	TSRF2001002	Liquidity Cash Account	409,921.51					Automatic transfer of excess cash to liquidity account
11/03/15	TSRF50010002	Macquarie Capital Infrastructure Fund	(8,903.99)	TSRF2001002	Liquidity Cash Account	8,903.99					Automatic transfer of excess cash to liquidity account
11/04/15	TSRF50020002	SteelRiver IFNA	(32,832.28)	TSRF2001002	Liquidity Cash Account	32,832.28					Automatic transfer of excess cash to liquidity account
12/02/16	TSRF10050002	Blackrock Value	(5,000,000.00)	FUND 072 (1)	INVESTMENT POOL ACCOUNT	5,000,000.00					To meet cash liquidity needs & rebalance portfolio
12/16/15	TSRF50020002	SteelRiver IFNA	(896,634.93)	TSRF2001002	Liquidity Cash Account	896,634.93					Automatic transfer of excess cash to liquidity account
12/30/15	TSRF40020002	Lasalle	(59,809.47)	TSRF2001002	Liquidity Cash Account	59,809.47					Automatic transfer of excess cash to liquidity account
TOTALS			(18,759,694.35)			18,759,694.35					-
(1) - INVESTMENT POOL ACCOUNT (Fund 072) Transfer-In Summary:											
FY16 -To Date	FY15	FY14	FY13	FY12	FY11	FY10	FY09	FY08	FY07	FY06	TOTAL
2,000,000.00	28,400,000	24,900,000	21,700,000	27,202,000	29,950,000	20,872,362	26,760,000	10,000,000	17,500,000	2,500,000	211,784,362
5,000,000.00	2,366,667	2,075,000	1,808,333	2,266,833	2,495,833	1,739,363	2,230,000	833,333	1,458,333	208,333	
5,000,000.00											
5,000,000.00											

To our valued clients, colleagues, partners, and friends:

When we sat down to write this letter, we were quickly reminded of one thing: each one of you is different. You have unique roles, organizations, challenges, and opportunities. How, then, to write a letter that would resonate across titles and time zones? When faced with a question, we often find it best to turn to the numbers to see what they reveal.

We hope you'll forgive the inclusion of a chart, but we think this one speaks volumes. It quantifies something that we have all experienced: investing truly is more complex today than it has ever been before. This chart articulates the asset mix and associated risk needed in order to achieve an expected 7.5% return at different points in history:



Expected Return: 7.5%
Standard Deviation: 6.0%

Expected Return: 7.5%
Standard Deviation: 8.9%

Expected Return: 7.5%
Standard Deviation: 17.2%

The results show that over time achieving a 7.5% return has necessitated the assumption of three times the risk. Regulation, capital market development, and declining return expectations have all contributed to this evolution. (For still-relevant insights from 2009 we suggest taking a look at [The Odyssey of Risk: Find Your Compass](#).)

The advent of new asset classes and strategies has allowed asset owners to diversify into increasingly

do. To that end, over the past year we have:

- **Continued to expand our multi-asset class coverage** by formalizing teams and processes that promote collaboration across multiple departments. Our goal is to help our clients address the complexity of today's multi-asset and direct hedge fund portfolios by finding solutions that are diversified, scalable, and institutional-quality.
- **Reinvigorated our [published research](#)** and committed to sharing it more widely in order to promote industry dialog on important investment topics and to expand the well of knowledge from which our clients can draw.
- **Engaged with emerging managers via [Callan Connects](#)**, a program we launched in 2010 for emerging managers with less than \$3 billion in assets, as well as minority-, women-, and disabled-owned firms with less than \$10 billion.
- **Reaffirmed our commitment to independence.** We are in our third generation of employee ownership, and now have more than 85 employee shareholders. This structure makes us stable yet agile, and able to respond to clients' needs while maintaining our long-term perspective.
- **Increased our total staff to help meet client needs.** We hired several new full-time employees in 2015 for both existing and newly created positions, including senior-level consultants and capital markets experts.
- **Continued to advocate for ethics and integrity** in our industry. Ron serves as chairman of the volunteer advisory committee overseeing the Asset Manager Code of Professional Conduct, which you can learn more about in the [September/October 2015 issue of CFA Institute Magazine](#).

Sometimes doing things “the hard way” is the right way, a belief that has underpinned our commitment to our [proprietary database](#), which now has more than 40 years of data. This also means that we create customized strategies for each client, not off-the-shelf answers. We conduct individualized manager searches that leverage our experts' unique insights, not recommended lists or ratings.

The complexity of today's market isn't going away, and neither is our commitment to meeting its challenges head-on. Our goal will continue to be finding practical solutions that will help our clients prosper.

Our business is all about the numbers, but ultimately it is really about people—our employees, our clients, their organizations, and the diverse constituencies that we all serve. We wouldn't be here without you. Thank you for working with us.

With all best wishes for the New Year,

Ronald D. Peyton
Chairman and
Chief Executive Officer
peyton@callan.com

Gregory C. Allen
President and
Director of Research
allen@callan.com

If you wish to be removed from Callan Associates Inc. e-mail communications click [Unsubscribe](#).

Callan Associates Inc.
600 Montgomery Street
Suite 800

T: [415.974.5060](tel:415.974.5060)
F: [415.291.4014](tel:415.291.4014)

San Francisco, CA 94111

www.callan.com

Certain information herein has been compiled by Callan and is based on information provided by a variety of sources believed to be reliable for which Callan has not necessarily verified the accuracy or completeness of or updated. The views contained in this content are for informational purposes only and should not be construed as legal or tax advice on any matter. Any investment decision you make on the basis of the content is your sole responsibility. You should consult with legal and tax advisers before applying any of this information to your particular situation.