TUCSON SUPPLEMENTAL RETIREMENT SYSTEM
BOARD OF TRUSTEES
Notice of Regular Meeting / Agenda

Meeting minutes from Thursday, January 22, 2015
Finance Department Conference Room, 5th floor
City Hall, 255 West Alameda, Tucson, Arizona 85701

Members Present:	Robert Fleming, Chairman (departed 11:10 am) Kevin Larson, City Manager Appointee (arrived 8:37 am) Curry Hale, Interim HR Director (departed 11:23 am) Silvia Amparano, Director of Finance Michael Coffey, Elected Representative Eric Kay, Elected Representative John O'Hare, Elected Retiree Representative
Staff Present:	Kelly Gottschalk, Assistant City Manager (arrived 9:08 am, departed 9:56 am) Dave Deibel, Deputy City Attorney (departed 10:38 am) Silvia Navarro, Treasury Administrator (arrived 8:41 am) Michael Hermanson, Plan Administrator Allan Bentkowski, Treasury Finance Manager Dennis Woodrich, Lead Management Analyst Dawn Davis, Administrative Assistant
Guests Present:	Jenefer Carlin, CTRA Representative Gordon Weightman, Callan Associates Paul Erlendson, Callan Associates Camille Humphries Lee, MFS Mark Sullivan, MFS Christopher Chard, Brandes Investment Partners Michael Israel, Brandes Investment Partners Tim Stidham, American Century Investments Trevor Gurwich, American Century Investments Kevin Koelln, City of Tucson Employee
Absent/Excused:	None

Call to order- Chairman Fleming called the meeting to order at 08:30 AM

A. **Consent Agenda**

1. Approval of December 30th Board Meeting Minutes
2. Retirement ratifications for December 2015
3. December 2014 TSRS expenses and revenue compared to budget

Motion to approve the Consent Agenda made by John O'Hare, 2nd by Curry Hale; Motion approved 6 to 0 (Kevin Larson absent).

B. **Disability Applications** *

1. Jesus Lucero

Motion to approve Jesus Lucero's disability application made by Eric Kay, 2nd by Silvia Amparano, to approve the Disability Application of Jesus Lucero and passed by a vote of 6 to 0 (Kevin Larson absent).

2. Kevin Koelln

Motion to enter Executive Session made by John O'Hare, 2nd by Eric Kay, motion approved 6-0 (Kevin Larson absent). Motion to exit Executive session, then return to Regular Session made by Curry Hale, 2nd by Eric Kay, motion approved 7 to 0. A motion to deny Kevin Koelln's application based on the information provided by Dr. Krasner was made by Curry Hale, 2nd by Silvia Amparano, motion passed 7 to 0.

C. **Investment Activity Report**

1. PIMCO/Lehman Brothers Settlement Information – Board Direction for Settlement

Allan Bentkowski said PIMCO reeccomended all clients move forward with the settlement. The settlement stems from losses incurred in 2008 through Lehman Brothers Inc.; settlement papers were signed in 2009 and it had finally gone through the courts and a settlement agreement was reached. He recommended the Board move forward with the agreement. He said when the loss was incurred they expected to recover fifteen cents on the dollar and it turned out that after the settlement was negotiated they would actually recover around fifty cents on the dollar for a total of around $704,000 if a sufficient number of PIMCO clients agreed to the settlement. Allan anticipated the majority of PIMCO clients would decide to move forward with the settlement. A motion was made to move forward with the PIMCO settlement by Eric Kay, 2nd by Curry Hale.

Allan advised if the Board decided not to move forward they would have to retain their own lawyers to proceed separately and the extra negotiated amount would be lost.

Michael Coffey clarified the overall outcome was contingent on the actions of others outside of this Board.

The motion passed by a vote of 7 to 0.

2. Due Diligence Interviews for Selection of Non-US Equity Small Cap Managers

Paul Erlendson explained Callan Associates had done an asset liability study for the Board in May 2014 which resulted in the decision to add a Non-U.S. Equity Small Cap manager, meaning the managers presenting today would be investing in both developed and emerging markets, with approximately 45 different markets they would be investing in. The mandate was to look at the smaller cap managers. Outside the U.S., there are 26 markets that define capitalization differently but approximately twenty percent of the capitalization spectrum within each of these countries is going to be small cap. For some countries, that could be as much as $6B, while in other countries it would be smaller. He said some of the things that should come out of this process are to find out how these three firms define small cap, what are the characteristics of the companies the firms look for, and whether they focus on earnings momentum and growth or valuation metrics.

Gordon Weightman said of the three firms presenting, MFS uses a broader spectrum of capitalization and may include mid cap, Brandes is focused on small cap and micro-cap, and American Century tends to be closer to the defined benchmark. He said the mandate was twenty percent of the non-U.S. equity assets which amounts to an allocation of about $35M of the total TSRS portfolio.

Michael Coffey asked for elaboration on the investment risk question provided to the investment managers by Callan Associates Inc.

Paul said that broadly speaking, risk could be defined as the volatility of returns; meaning if the market is going down they are going to try and lose less, others will try to keep their returns above zero. He said the reason this was included in the questions contained in the letter sent to the managers was that risk is a very ill-defined and obscure concept and they wanted the managers to define it so the TSRS Board could decide whether the investment managers' sense of risk was aligned with theirs. He said the other issue questioned in the letter was currency because last year the dollar strengthened and as a result, most of the performance results in the 4th quarter for non-U.S. exposure were negative due to currency fluctuations. In 2014 currency was a large factor in non-U.S. returns so they wanted to know if these investment managers try to hedge that risk or not.

Gordon said it was important to ask the managers how they define risk, how they think about it, and how they try to control it.

John O'Hare asked if Callan had vetted the investment management companies to ensure that they were compliant with the Foreign Corruption Practices Act.

Paul answered they looked at the companies' disclosures but they did not perform any auditing functions or track the behaviors of individuals. He said they try to eliminate institutions where there are obvious questions about the behavior of the institution and individuals. He said they had worked with the Board to develop a job description including the Board's requirements as well as characteristics to avoid, and these managers were the top three that met those requirements. He said that ultimately the Board would be hiring the investment teams and investment strategies of the management companies and that was why he thought the questions they included with the letters sent to the managers were important.

John O'Hare asked if compliance with the Foreign Corruption Practices Act could be included in the contract with the chosen investment manager.

Gordon said it was something they could address once the contract stage had been reached. At this time they would have to look at the language of the Investment Management Agreements already in place.

a. MFS Investment Management

Mark Sullivan said the guiding principles of their firm were integrated research, global collaboration, and active risk management. MFS is a global asset manager with nine investment offices worldwide and while that is not unique, the way that they organize and aggregate their research capabilities is. The global research platform is the bedrock of their investment selection process. They group all of their investment professionals into eight global sector teams. On each team there is representation from fundamental equity analysts, credit analysts, and quantitative analysts to give unique insight across different geographies and market spectrums. In order for the global research platform to work, it is imperative to have a collaborative environment which is fostered through compensation. Risk management starts at the stock level at MFS with controls in place at the portfolio and firm levels. Every portfolio goes through a semi-annual risk review where the investment team sits down with the risk committee and investment management committee to go through every name in the portfolio. Page 2 of the information provided by MFS is their business profile, the top half shows how the clients' assets are broken up by style and the bottom half shows their geographies at the end of Q3:

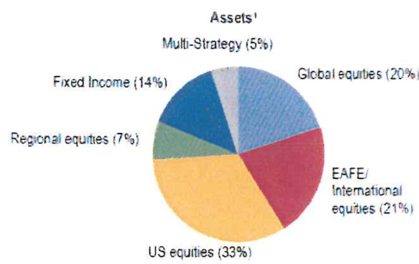
MFS

Business profile (USD)

424 billion total MFS AUM

Diversified client and asset base[1]

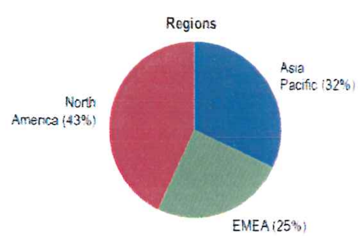
Assets	
Global equities	86 3 billion
EAFE/international equities	89 2 billion
US equities	138.0 billion
Regional equities	31 6 billion
Fixed Income	58 0 billion
Multi-strategy/Other	21 0 billion



Institutional business by client type and region[2]

Client types

- Defined benefit/defined contribution
- Endowment and foundation
- Sovereign wealth fund/government agency
- Institutional platform/insurance subadvisory



As of 30-Sep-14
Data is rounded to the nearest figure
[2] Represents global clients in institutional vehicles only

Well-diversified business across clients, regions, and investment strategies

This speaks to the stability and diversity of the organization and shows that the firm would be able to weather any storm, whether it comes from a particular asset class or geography. MFS is an investment led organization with about 250 investment professionals with tenure.

Mark said the firm has four portfolio managers on their International Small Cap Equity Team, adding that Camille Humphries Lee was a part of this portfolio management team, offering more of a client facing role to discuss strategy.

Gordon asked Camille if as an Institutional Portfolio Manager she makes stock selection decisions on the portfolios, like the other portfolio managers

Camille answered that she did not, they discuss it via conference calls and emails but at the end of the day, the portfolio managers make those decisions. She said page 5 shows the distinguishing characteristics of the strategy. They put a lot of emphasis on their global research platform with a team that includes 34 analysts on the international side based in 8 cities outside the U.S., and 4 portfolio managers in 4 different global regions. The breadth and depth of resources is terrific and has an emphasis on teamwork, integration, and collaboration. They also place emphasis on investing in high quality companies, defining high quality as companies that generate high and sustainable returns through different market environments. The 3 year average return on equity in their portfolio was 23%, as of 12/31/13, compared with the index at 14% suggesting they own companies that do generate higher returns on capital. Finally, they have a long term investment horizon. Turnover in their portfolio is about 15%, suggesting that MFS holds the companies for long periods of time. To explain who MFS is in the small-mid cap international space, they use the MSCI AC World Ex-US Small Mid Cap Index, meaning they invest in small and mid cap stocks in both developed and emerging markets for a broad range of choices resulting in significant opportunity to deliver strong returns to their clients. The foundation of MFS is research intensive, team oriented, bottom up research.

Gordon asked what their ultimate objective was for their portfolios and what they were trying to accomplish.

Camille said they were trying to participate in the small-mid cap space internationally and to outperform their benchmark over full market cycles. She defined a full market cycle as 3 to 5 years on average, and stated they hoped to deliver excess returns averaging 200 basis points a year or more. She explained they did not want to chase short term trends in the stock market because it was a recipe to underperform and they had a more long term perspective. She said page 15 showed the 3 and 5 year numbers showed that their excess returns were more than 4 percentage points and the 10 year basis also showed a strong excess return. She said that on a 1 year basis they can fall short of the benchmark and still be on track for the long term performance.

Paul said if this group is looking for small cap exposure and Camille had indicated the benchmark is small and mid, one might be skeptical and say because it includes mid, it has a much larger opportunity set that also allows the manager to accumulate more assets within the strategy. He asked her to disabuse the notion that the benchmark is a business opportunity to gather more assets than the strategy.

Camille responded they had chosen to be small-mid cap because when it was started in 1997, and by 2000 they had really narrowed down whom they were as a company, which is who they are today as a small-mid cap manager. They like to find winning companies early and own them for a long period of time. On the U.S. side of the business they have a manager dedicated to just small cap and he gets frustrated because they own great companies and sometimes the stock performs very quickly, then they have to sell within a year because of the market cap. Because they can own mid cap MFS can hold on to a great company for a longer time. Secondly, in difficult market environments when there is a short down turn in the equity markets, generally small cap stocks are going to have the worst performance while mid cap stocks tend to be slightly bigger business, more diversified, and generally hold up better in tough markets. A significant part of the MFS strategy is downside protection in really tough markets and it works to the client's benefit to have a little more stability in the portfolio provided by including some mid cap stocks.

Allan Bentkowski asked if their low turnover ratio of 15% was reflective of the purchase of small cap companies and having the ability to hold onto them longer by not limiting themselves to small cap.

Camille answered yes and explained that they liked to do their homework to find a good company and benefit from the investment over a longer period of time.

Gordon said the low turnover rate is surprising and unique given the volatility within international small cap because there are many companies that just don't do well and small cap managers tend to sell out of them, and maybe buy them again at the right time, so to find companies and hold them for a long time speaks to the MFS process.

Camille said the qualities they are looking for when investing in companies included above average consistent earnings growth. MFS really looks for companies growing at a moderate pace where they can see the business model continuing to do the same thing for three, five, and seven years in the future. They prefer predictable and steady growth over fast and unpredictable growth where the business model is always changing, because fast and unpredictable growth is higher risk. They also look for companies that have some kind of sustainable and durable competitive advantage like a superior brand name, intellectual property important to their product and technology, low cost production, or a superior distribution network. They also look for companies that have a strong management team with incentives driving superior returns on capital over the long term. They also look at a number of different valuation metrics to get the best understanding of what a company is worth. In emerging markets MFS tends to invest in companies benefiting from the development of the middle class like healthcare and for profit education companies. In Asia they tend own a number of technology companies because they often had intellectual properties and low production costs.

Gordon asked about their portfolio construction process, and whether they were benchmark aware.

Camille answered in terms of how they break down the world to choose stocks, their portfolio managers specialize by region. She said they certainly think about their benchmark, and advised that the sector weights were available on page 11. They are benchmark aware which is a neutral position, and put a higher weight in sectors with superior return potential.

Sector weights

As of 30-Sep-14	Portfolio (%)	MSCI All Country World (ex-US) Small Mid Cap Index (%)	Underweight/overweight (%)
Special Products & Services	15.4	6.5	8.9
Consumer Staples	7.5	4.0	3.5
Retailing	9.0	6.5	2.5
Health Care	7.7	5.7	2.0
Autos & Housing	5.5	6.2	-0.7
Technology	6.8	7.6	-0.8
Leisure	5.9	6.8	-0.9
Transportation	3.5	4.5	-1.0
Energy	2.9	4.7	-1.8
Basic Materials	6.5	9.8	-3.3
Utilities & Communications	2.6	6.1	-3.5
Industrial Goods & Services	6.9	10.6	-3.7
Financial Services	17.0	20.9	-3.9

For example Special Products & Services are business and consumer services and tend to be companies that dominate a smaller niche and have high returns on capital and tend to have natural barriers to entry. Consumer staples companies tend to have steady business models. On the other hand MFS tends to have less exposure in sectors where they do not think the fundamentals are as strong and returns on capital are not as attractive. So when considering financial services they tend to avoid the banks in Europe because they have too much debt on their balance sheets and there is increasing regulation making it difficult to make money. They are also cautious regarding smaller industrial companies because the quality is not as good and they are very cyclical. MFS also tends to have underweights in utilities and energy which tends to be more commodity oriented, lower return businesses. When considering region weight MFS thinks of the benchmark as being a sensible and good diversification across the regions and as a result there will be some variation. Page 12 shows a significant overweight to the United Kingdom because MFS has found a lot of great businesses there and about two-thirds of their holdings in the United Kingdom are actually multi-national companies. They are underweight in continental Europe, and Asia/Pacific, specifically Australia, and Canada, where there are many metals and mining companies which are more cyclical and commodity oriented lower return businesses. In emerging markets MFS tends to stay in line with the index weighting at roughly 20%.

Paul asked Camille to specifically address how they consider currency for the dollar investor when selecting securities.

Camille answered that they manage for the long term and the currency differentials tend to neutralize over the course of a 3 or 5 year cycle. Over a shorter time period like a quarter or a year currencies can make a significant difference in terms of portfolio positioning. On one hand MFS likes having exposure to a diversity of currencies and they think it is part of what their clients want in having international exposure. They are very careful at a specific company level basis, so if a company has all of their revenues in one currency and their entire cost basis in another currency they have higher risk as the currencies move in different directions. MFS would be very careful in making sure they understood such a company, what the range of outcomes could be, and whether the company hedges to mitigate currency fluctuation. They are also cognizant of the risks on a broader regional basis, for example considering the Brazilian economy and election last year when deciding to lessen their exposure in the country to lessen any effect the anticipated currency fluctuations would have on the portfolios. In other situations; currency can provide attractive investment opportunities for example after the Brazilian Real did decline last year, one of their companies, whose cost basis was entirely in the Real, had a cost advantage compared to their competitors across the globe.

Paul asked if currency hedging was an active part of asset management, or if MFS just dealt with currency in relation to the companies they chose to invest in.

Camille answered it was more company specific but they were cognizant and careful of it. In this portfolio if you went back to 2005 and 2006 that was the one time they did some currency hedging for the portfolio and the reason for that was their benchmark at the time was EAFE. At the time, Japan was a significant share of the EAFE benchmark and MFS had a substantial underweight to Japan and overweight to Canada and they found they had an unintended bet in favor of the Canadian dollar against the Japanese yen so they put on a hedge to neutralize the unintended bet, and they generally have not hedged currency since then.

Kevin Larson asked about the size of the portfolio.

Camille answered the total strategy had just over $6B in assets. In the past, some of the more institutional clients were not as interested in this asset class and about 3 or 4 years ago there was an uptake in interest from the consultants and institutions that resulted in a flurry of funding. They have taken on just over a billion dollars in institutional assets but as a convention they want to protect their performance and keep from growing too big and have placed a soft close for new investors. They are not currently taking any new separate accounts from institutions and that is where they are at today. The flows have been moderate from existing clients and mutual funds.

Allan said they had an embedded expense ratio on some of their mutual funds and they had additional management fees and asked if the board would be billed quarterly with all these fees included.

Mark answered on page 17, it shows all the MFS vehicles and they thought the R5 share was best suited for the TSRS Board and the total expense ratio of 1.02% was the all in cost.

Allan asked if the 0.93% was a part of the total expense ratio.

Mark answered yes it was and the other fees listed in the table on page 17 were included in the total expense ratio as well.

Kevin asked them to explain the reason they were able to outperform their benchmark in 2014.

Camille said they did well in terms of basic materials and had an underweight there. Commodities had struggled and it helped that MFS avoid that area. They also had a European company that produces scents and flavors that are sold for a wide variety of uses that did well. MFS also did well with retailing stocks like Dollarama in Canada. She said the leisure area performed well and gave the example of Domino's UK, which was a strong performer in the portfolio because the home delivery aspect is in much earlier stages of development in Europe and the U.K. than in the U.S. She also said they had been able to purchase a home building company in the U.K. for very cheap in 2009 after the housing crisis and it performed well this year and last year.

Kevin asked if she knew the amount of currency influence in the MFS return as well as the benchmark return.

Camille said she would look to the benchmark as a neutral stance and for MFS currency was a slight advantage but at less than 100 basis points.

Mark pointed out their long term annualized performance and stated the numbers spoke for themselves.

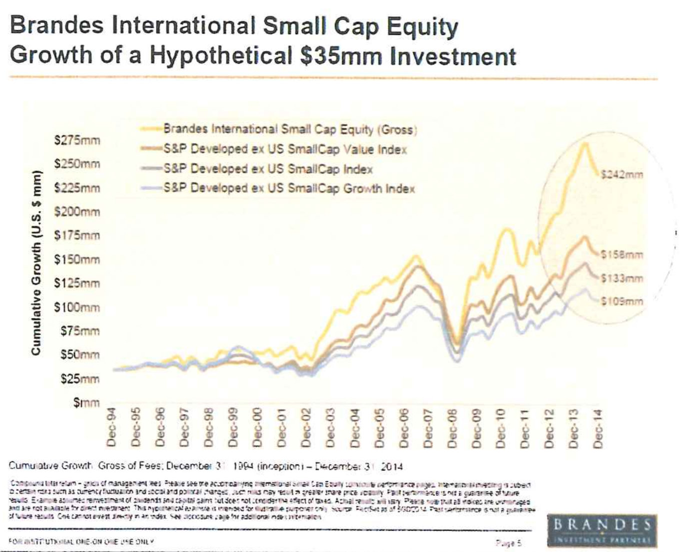
Annual performance (%), as of 31-Dec-14	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
MFS International Small Cap Equity Composite	-1.5	21.2	26.5	-8.8	23.6	49.7	-43.2	10.5	28.9	22.2
MSCI AC World xUS Small Mid Cap (net div)1	-3.0	17.8	18.0	-17.1	23.0	56.8	-49.8	12.4	30.8	22.0
Excess return	1.5	3.4	8.5	8.3	0.6	-7.1	6.6	-1.9	-1.9	0.2

If you look at their annual performance in 2008 and 2011, the most challenged markets of the decade provided; those were 2 of their best 3 years of performance which proves the downside protection of client assets provided by investing in those quality companies.

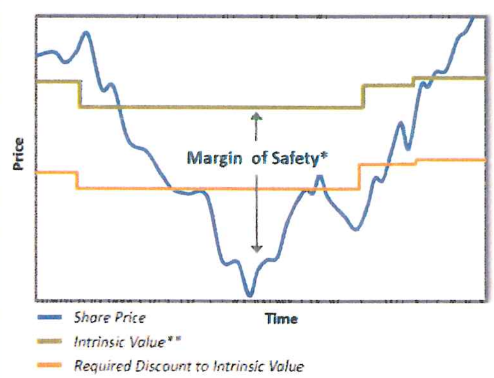
b. Brandes Investment Partners, L.P.

Christopher Chard said they were there to talk to the TSRS Board about their international small cap strategy. As value investors, their intention was to buy an asset at 50 cents on the dollar and the opportunity is rampant in international small cap. The ability of Brandes to buy a company at a discount leads to an enormous capital appreciation over time. He said he was going to talk about how the company is purposely built to put the clients' interests and success first, and then he would talk about how value works best in the space of international small cap and how their particular commonsensical approach works very well. He also explained that in the folder provided to the TSRS Board there was a document addressing the questions given to Brandes, line by line, on behalf of the Board by Callan.

Christopher directed the Board to review page two of the presentation booklet. Brandes is independent and owned by the employees. The firm was founded in 1974 by Charles Brandes, who at 71 years old is still actively involved in the organization. He thought there were some things that could be built into the structure of the company ensuring the clients' interests were put first, like knowing when to close strategies. One of those things is how he structured the ownership of the organization. The firm manages a little less than $30B and they have over 300 employees but the company is completely owned by its employees. They believe this provides a large competitive advantage today. There is a high level of co-investment of the professionals that manage the portfolio because they see how well it works for the clients. There was a study done on the difference between growth investing and value investing particularly in the U.S. This study is commonly referred to as LSV and shows there is a value premium and that value investors typically prevail over growth investors. Brandes took that study and applied it to international small cap stocks, and the bar graph on page 4 of the presentation booklet illustrates this point using 35 years' worth of data. The chart below illustrates how the Brandes portfolio outperforms the Value Index, the broader International SmallCap Index, and the Growth Index as well. Brandes buys small companies with value stock.



Michael Israel explained the performance gap achieved over the passive value through the consistent application of what they feel is a very common sense and fundamental approach. Ben Graham said an investment style needs to be focused on fundamentals when you think about companies. Brandes tries to buy companies for less than they are worth, which is not easy to do because people get caught up in fear and greed but at Brandes they try to think like business owners. They know that business owners think about the long term value of the company and they do not change their minds on a day to day, month to month, quarter to quarter, or even a year to year basis. They also know that sometimes a really great business is not a good investment because their success drives up the price and the price can exceed the long term value. What Brandes does is hand select 60 to 80 businesses that they really understand and they feel are good investments for their clients' capital. He said it starts with the team of the Small Cap Investment Committee made up of 4 individuals. Michael is the client portfolio manager and has worked with the Small Cap Investment Committee on a daily basis since 2001 with portfolio construction and servicing the institutional clients. The Brandes analysts are aligned globally, and up and down the cap spectrum. The team considering a company considers the whole industry when deciding whether to buy to help them understand what the company should be worth. The ultimate goal of the team is to determine a long term intrinsic value for a company by digging into their financials and considering their debt, interest coverage, and what their earning power should be, any threats to that long term value like what country they operate in, whether they have debt in one currency and revenues in another and whether they hedge that well. They think it is a common sense approach to risk management to consider the risk that companies face in the real world when figuring out what they are worth. Figuring out what a company is worth is only half of the puzzle, the other half is not paying too much. He explained the intrinsic value of a company does not change very much and is not as volatile as the stock price.



The gap between the long term intrinsic value and price is what they call the margin of safety. Brandes also serves their clients by avoiding companies with a price that is higher than its long term intrinsic value.

Gordon Weightman said stock prices do not always come back up as the margin of safety graph indicates, and sometimes they continue to fall. He asked what factors they looked at to make the decision of where the share price might go, and how they decide it is a good business.

Michael stated that it was a part of the fundamental research and they do not try to predict where the stock prices are going to go, when they evaluate a company and are confident in the intrinsic value then they would continue to hold it even with a declining stock value. Often if the stock price declines and they reassess the intrinsic value there is still a margin of safety and they typically average down. Many times history shows that when there is bad news about a company the stock price drops much further than the fundamentals of the bad news dictates; so even though the intrinsic value of the company drops the overreaction causes the stock price to decline more than the intrinsic value. The Brandes edge in international small cap is that they take advantage of short term pessimism in the stock market, and they take advantage of the lack of market coverage. There are 75,000 companies outside of the United States that are small cap and Wall Street pays a disproportionately small amount of attention to them. Another Brandes edge is the overreaction of others to macro and cyclical issues and that they are able to avoid the value trap with rigorous fundamental financial research. The difference between a value trap and a good company is determining the difference between a cyclical issue and a secular issue. When the Small Cap Investment Committee meets, the deepest discussions are about why the companies are so cheap, and is it cyclical or secular.

Kevin Larson asked if they considered themselves more of a deep value manager than a value manager.

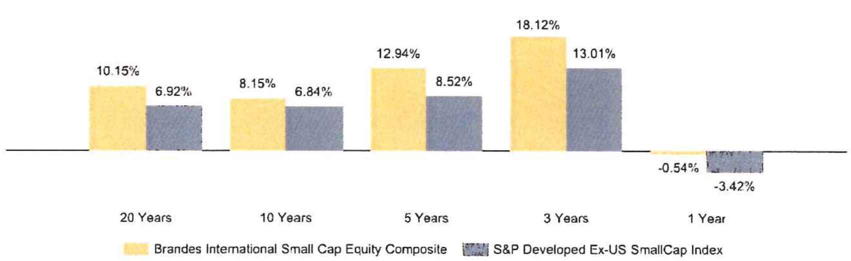
Michael answered if the definition of deep value is that you buy junk just because it is cheap, he would say no. If what was meant by deep value was paying attention to price in a disciplined way that even high quality companies where they were willing to place their intrinsic value higher with all else being equal but their price is still well above the intrinsic value not hold it, then he would say yes. He would say they were a discipline value manager and when quality is cheap they would love to own it. An important distinction is the allocations to countries, sectors, and industries are a byproduct of the bottom up process of searching for companies. It is not surprising that when Italian companies seemed attractively priced to them a couple years ago, the fundamentals of Italy looked shaky and people were pessimistic about it. He used some of their key over-weights and underweights to illustrate if they have an allocation that is similar to the benchmark in a country, sector, or industry it is probably a coincidence and that Brandes is willing to show their conviction to be zero-weight or underweight in sectors that are excessively priced.

Allan Bentkowski asked if they would classify themselves as contrarian.

Michael answered if the definition of contrarian is they buy just because the price is down the answer is no, but the reason they are able to find a company trading at a big discount to the long term intrinsic value is because they are thinking differently within the market. He said an aspect of this asset class is non-US small caps tend to be more mature than US small caps. On average they are not in the post venture capital, post start-up, hyper growth phase typical in US small cap. On page 12 of the presentation booklet they show 64% of their portfolio is more than 30 years old and the average age of the companies is over 50 years old. He said if you can look at companies that have been around for decades it gives a feeling for how the companies should behave in different cycles going forward. The reason those kinds of companies are abundant in non-US small cap is that they don't have to be a large company to be important in their home markets. The ability to find high quality companies out of favor for cyclical or behavioral reasons gives Brandes an opportunity to own that high quality company. Page 13 of the presentation booklet shows the top ten Brandes small cap equity holdings to illustrate that good and solid companies can be small.

Michael directed the Board to turn to page 14 of the booklet.

Brandes International Small Cap Equity Performance



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Brandes International Small Cap Equity Composite	14.19%	11.12%	-5.83%	-40.20%	66.63%	33.15%	-16.25%	28.11%	29.35%	-0.54%
S&P Developed Ex-US SmallCap Index	22.10%	29.43%	7.35%	-47.67%	45.07%	21.96%	-14.49%	18.55%	26.06%	-3.42%

Annualized Returns Through December 31, 2014*

The top half compares Brandes performance to their benchmark. He said if you look at the individual years in the table you can see the portfolio behaved as a value portfolio should and because Brandes is consistent the client can make some assumptions about how they would behave in the future. The numbers show in 2005 through 2007, when the equity markets were in a bubble with the worst corrections ever seen during the financial crisis. During that time things like real estate, metals and mining, oil and gas, and the global real estate boom made a lot of things really expensive, some of them up to three times book value. Brandes was not in any of them which caused uncomfortably low performance. When the markets are frothy Brandes will probably underperform but they feel it shows they are doing the right thing for their clients in the long term because they did not own any of the expensive companies and held up really well when the market corrected. The long term results show the consistent application of the fundamental common sense approach. The three things he would like the Board to take away from this presentation are Brandes is purposely built to deliver value for their clients, value works best and there is a value premium in international small cap, Brandes' consistent common sense approach works extremely well.

Paul Erlendson said one of the big issues recently had been the continuing strength of the US dollar and asked how Brandes approached the currency part of a US investors acheivement of value, did they actively hedge in the currency markets or is it more subtle in terms of how they manage currency risk.

Michael answered they do not actively hedge the overall portfolio. Where currency issues come into play is in the long term intrinsic value of companies; for example an airplane manufacturer in Brazil who sells in euros and dollars, Brandes considers how they hedge or manage that. For a completely domestic company and they have been hurt by a cyclicly weak currency Brandes thinks of that more in terms of a normalized figure. For an exporter, a weak currency would actually help. They have done a fair amount of research, with some outside help, looking into the effect of currency on their portfolios over long periods of time, and when you start getting up to 5, 7, and 10 years, the effect of currency on the portfolio is not statistically different from zero, so hedging all along would have been an expensive drag assuming you hedged correctly; it is easy to say you should hedge but it is not easy to do it right.

Kevin said the portfolio consisted of 60 to 70 stocks across the world and asked why they thought that was diversified enough.

Michael answered once they started getting up into a few dozen names across different sectors and geographies the benefit of diversification starts to wane off. The reason he thought 60 to 80 was enough diversification for Brandes was because they have maximum constraints so they could not end up with 30% of the portfolio in one industry or one country because their maximum is 20% in one country or 150% of the benchmark. The other point about only 60 to 80 names is they only invest in companies they understand and if they start thinking they can understand the true dynamics of 100 or 150 all at the same time and how they should allocate capital over time they lose that understanding.

Kevin asked how many stocks were in the benchmark.

Michael answered there were several thousand.

John O'Hare asked how the benchmark used by Brandes compared to other benchmarks.

Michael answered the reason they use the S&P Developed Ex-US Small Cap Index as their benchmark was it was the only benchmark that existed when Brandes started and there is no compelling reason for them to switch to one of the newer benchmarks. He said their benchmark was very similar to MSCI EAFE Small Cap in its country weights and methodology. One of the minor differences is South Korea is included in the S&P Developed Ex-US Small Cap Index benchmark, and not in EAFE. There is an all country benchmark that is reasonable to compare Brandes to because it includes emerging markets. He also said he was comfortable having their performance compared to any small cap performance benchmark.

John asked if page 14 of the presentation booklet was gross of management fees.

Michael answered it was and said that the Brandes underperformance in years 2005 through 2007 is included in their ten year number and other firms that out performed Brandes during those years would have a higher ten year number.

Christopher said that he agreed, they look at that period as an anomoly, not to imply it could not happen again but it is unlikely, and the ten year numbers are definitely affected by it.

John asked how many basis points over the index would Brandes like to be evaluated on.

Michael answered over the investment cycle it was fair to expect a gross out performance of about 300 basis points so the net would be a little over 200.

Kevin asked what was the size of this portfolio.

Michael answered the total assets under management in this strategy were between $1.1B and $1.2B. They take capacity very seriously and have closed products in the past when maximum capacity was reached. Maximum capacity for this strategy is in the $2.5B to $3B range so their intention was to close it around the $1.5B range so that existing clients can still add funds.

Kevin asked if they had large inflows or outflows, specifically outflows, of clients over the last 18 months to 2 years.

Michael answered no, not since 2007, 2008. They have had strong net inflows of clients over the last 18 months and they have a mutual fund in this strategy that has been pretty successful.

Allan asked what strategy they would suggest for the TSRS Board plan.

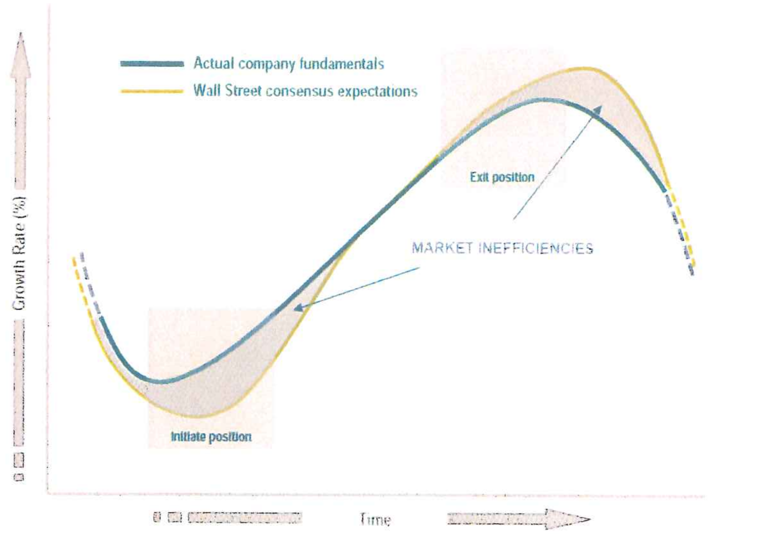
Michael answered a separate account would be the most challenging because of registration and ADRs do not exist in plentiful amounts in this space. Their comingled vehicle was priced exactly the same as a separate account and Brandes pays the custodial costs and registration fees and he thought that it was an excellent vehicle for plans and allocations of this size. There is also a mutual fund with ishares but the expenses are a little higher. He said he thought the comingled vehicle is probably the ideal vehicle.

Christopher said last week they met with a client who had been with Brandes for about 20 years and the client told them they were the longest stading manager on their account. When you look at those types of relationships, Brandes was looking for the dramatic out performance over a long period of time.

c. American Century Investment Management

Tim Stidham said the goal of American Century Investment for over 50 years was to deliver superior risk adjusted return on behalf of their clients, and their sole business was investment management. They are a privately owned firm with an ownership structure that allowed them to take a long term view towards investment. The key distinction of the firm was their value based culture; each year 40% of their profits are distributed to an endowment that supports the Stowers Institute for Medical Research. In their 58 year history there has been no regulatory action taken against the firm or any of their principles. The Stowers Institute owns 46% of their equity, CIBC owns 41%, and employees own the last 13% of the firm, which allows them to retain key employees and provide stability within the firm. American Century manages $142B in assets on behalf of their clients, 44% of those are with institutional accounts. They are well diverse among their six investment boutiques. Their global and non-US equity boutique is managed out of the New York office and manages roughly $25B on behalf of their clients. Their non-US small cap strategy had just over $1B dollars in assets ending the year, and has a capacity of around $1.5B, so at that point the firm would revisit the liquidity in the marketplace.

Trevor Gurwich said the company had a very distinctive philosophy focused on acceleration, a collaborative team focused on delivering alpha, and their fundamental, repeatable, and disciplined process focused on inflection points which differentiated them from other investment products. This provides several benefits to the Tucson Supplemental Retirement System, first they get growth across all different market cycles, second they can perform in both value and growth environments, and third they have a great correlation to other managers that might be currently invested in the TSRS portfolios. They have spent their time answering the questions provided with the letter from Callan. They use the All Country World Index Ex-US Small Cap Index as their benchmark because it is a broad index with over 2,500 names that suits American Century's investment style and includes emerging markets. American Century thinks there are great investment opportunities in emerging markets. They also have experience managing EAFE products, which do not include emerging markets, and both core and growth versions of the EAFE index. Their expected out performance is 300 to 400 basis points over a market cycle with a tracking error of about 600 to 800 basis points and a market cycle of 3 to 5 years. He said their out performance over the longer term is actually stronger than that. On page 8 of the presentation booklet they show how they invest over time and what their growth was. He said they have three core beliefs; first is that earnings drive stock prices, second is that markets are inefficient at identifying inflection points which is crucial in small cap investing because the companies are under covered and reported results get out to very few people, and third is that when they focus on these inflection points they can invest in a company as it begins to grow, as market expectations adjust, and as multiples expand. The chart on page 8 to the left shows a typical investment manager, whether they are a value or a growth manager, they look at a certain growth rate or hurdle and try to back in to the right multiple to pay for it. American Century Investments is not constrained by specific growth hurdles or valuation criteria when they invest. They really want to find the incremental change within the company, what is driving the revenues and earnings, and invest when it happens. Their philosophy is better reflected by the chart on the right side of page 8, showing accelerating growth, revenues, and earnings result in significant potential to spot the price. They focus on that delta, the change and what is new, and that is why their philosophy works well in both growth and value markets. The philosophy does not perform well when there are major economic shocks like in 2007 when the market was no longer paying for earnings. Typically it takes anywhere from 6 to 12 months to readjust the portfolio and realign to get back on to the performance track. The chart on page 9 shows how they identify market inefficiencies.



They are trying to exploit the gap between what the company fundamentals are showing and what Wall Street expects. They would initiate a position in the shaded grey box in the lower left section of the chart and revenues and earnings will accelerate. Many times they will also see negative sentiment here and a general lack of coverage in the small cap universe. Conversely, American Century will sell when companies miss their revenue expectations, when there is analyst over exuberance and multiples are pretty high, when they find a cheaper company with faster growth, or for risk control. Their philosophy coupled with their process and experienced team gives them their competitive advantage over time.

He said he was excited to talk about the investment team because in his opinion they were stronger than ever with 6 dedicated members; 2 portfolio managers with complementary skill sets and over 20 years of industry experience in the market, and 4 analysts with an average tenure of 10 years and organized by region. This is a highly seasoned team that has been through both good and bad markets. This team meets over 1,200 companies per year all over the world as a part of their investment process. The small cap team is based out of the New York office which is important because there are 5 disciplines that are all international. The whole team is focused on the same growth philosophy. Team work is paramount so there is a lot of information sharing. Teams are incentivized to share information at the 9:00 am meetings every morning where the teams discuss what has happened over the previous 24 hours. This helps the teams know what areas to look in for acceleration. He gave the example of the large cap team giving information about DaimlerChrysler and the small cap team recognizing that they need to look into DaimlerChrysler's supply chain for potential acceleration or improvement. The quantitative analyst helps with screening and risk management so they can provide consistent product to investors. They have 3 client portfolio managers who work with clients on a daily or as needed basis to keep them informed about the portfolio as well as answer any questions. They have a 24 hour, 7 day a week trading operation in New York which is backed up for emergency situations by the Kansas City office. The investment process is consistent, systematic, and focused; this achieves repeatability through three steps, first idea generation, second fundamental analysis, and third portfolio construction. They generally have around 5,000 companies within the investment universe that are screened for liquidity and process fit until there are about 300 to 500 companies at which point the team will identify the idea using fundamental analysis and quantitative screening. Fundamental analysis includes preparing a report, which usually takes 7 to 10 days, and look at the thesis, drivers, acceleration, sustainability of the acceleration, and the valuation. This report gives them the ammunition they need to work with for portfolio construction, which is when they take the merits of the idea and put the portfolio together with 100 to 135 companies.

Gordon Weightman said it seemed like the construction of the portfolio was based on bottom up fundamental research done on the names. He asked if there was any over arcing macro component to the process, could they tie currency into the answer, and at what stage of the evaluation process they thought about currency for these companies.

Trevor answered the currency question. He said their core competency was security selection which was picking stocks, 90% of their alpha comes from security selection. Sector allocation is not a factor, currency is not a factor. They do not hedge because historically they have shown no ability to provide value by hedging. When performing the fundamental analysis they review the impact of currency on the stock selection. For example if looking at a company in Japan they would tend to favor the exporters who are benefiting from the depreciating currency, this will show up in the analysis because they will start to show acceleration and better earnings.

Gordon said the Yen is relatively weak compared to the Dollar right now. He asked if that were to change would that materially affect how American Century was looking at stocks.

Trevor answered the way to manage the situation was they would see the trend going towards a weakening currency so they would balance the portfolio so it was favored towards more export oriented names and more domestic oriented names in that geography. They are cognizant of macro factors because if the government is injecting $60B a month into the economy there is going to be depreciation so they know the portfolio should lean more towards exports while maintaining a balance so if it changes, that risk was controlled. He said they were cognizant of the macro but they are betting on the company not the macro because that is where they thought they could provide the most value.

As an example of a company they recently purchased, he used Pandora, the Danish jewelry company, to illustrate their process. The company is 30 or 40 years old and is probably the 2nd or 3rd largest jewelry company in the world today. American Century looked at the company on its IPO in 2011, the stock went up almost 75% in the first three months and had huge earnings, they weren't invested at the time and then the stock dropped 85%. American Century continued to watch Pandora and they continued to report 4 or 5 sequential quarters of earnings disappointment. Then, one day at the 9:00 morning meeting they found out that Pandora's stock price had risen by over 20%. So they moved on from idea generation to step 2, fundamental analysis, and had an analyst look into what had caused the increase. They learned a new CEO was in place and he had a concrete strategy to turn the company around by fixing 3 basic problems: inventory, distribution strategy, and updating the computer system so that they could track sales and update their supply chain management. American Century quickly decided to increase their position with the company going from 50 basis points to between 250 to 300 basis points, and the stock has returned almost 400% for them in the last 2 or 3 years. When American Century went through the third step of adding Pandora to the portfolio at the time the company was creating about 8 times earnings offering 25% earnings growth. They thought the earnings were artificially low due to the restructuring, the margins were depressed, but they continued delivering, expanding, and started a global advertising campaign to promote sales.

He emphasized a culture of risk management stating that the expected number of holdings for the portfolio would be between 100 and 135 names, and they would take positions no larger than 3% of the total portfolio to minimize the individual name risk. They take +/- 10% of the benchmark for regional, sector, country, and emerging market investments, and cash would never be more than 3% because they want to be fully invested for their clients.

He said the Board asked how American Century defined small caps, and this question was answered by the information in table on page 17 of the booklet.

Portfolio Characteristics

Portfolio: NON-U.S. SMALL CAP
Benchmark 1: MSCI ACWI ex-U.S. Small Cap Growth
Benchmark 2: MSCI ACWI ex-U.S. Small Cap

	Portfolio	Benchmark 1	Benchmark 2
Weighted Average Market Capitalization	$1.7 B	$1.5 B	$1.4 B
Median Market Capitalization	$1.3 B	$0.4 B	$0.4 B
P/E Ratio, Forecasted 1 Year	17.8x	17.1x	15.2x
EPS Growth, Historical 1 Year	33.2%	23.3%	18.5%
EPS Growth, Forecasted 1 Year	26.4%	22.7%	19.6%
ROE, Historical 1 Year	17.2%	15.5%	12.0%
Dividend Yield	1.3%	1.7%	2.4%
% in Cash	1.7%	0.0%	0.0%
Turnover, 1 Year	135%	N/A	N/A
Number of Holdings	101	2351	4210

Data as of 9/30/2014 in USD
Source: FactSet

He said they were getting far more growth and much more financial productivity from their firms.

Kevin Larson stated that the turnover in the table seemed high.

Trevor answered turnover listed in the table was 135% but if you looked at the individual name turn over it was about 75%. This implied that they might do tactical trims of a name if they thought the price had run up too much or they might add if they thought it had sold off a lot. He stated their investment horizon, when looking at a stock, was 12 to 18 months so they want to make sure the companies have sustainability of earnings for at least 12 to 18 months. A period of 12 to 18 months can be forecasted pretty accurately but it can be difficult to forecast for a period of time longer than that. There are names American Century has owned for 3 or 4 years but on the whole 12 to 18 months is how long they hold a name.

Kevin asked why 100 to 135 stocks in a portfolio were ideal as opposed to 50 or 365.

Trevor responded they were trying to balance both diversity and concentration. They want to make sure they were holding enough liquidity in the names to get in and out and they want to make sure they are diversifying the risk. Some funds have 60 to 80 names but they typically run into problems with liquidity, funds that have holdings of more than 150 names run into issues of how to reach a benchmark.

John O'Hare asked how much it costs to get in and out of stocks as far as the commissions and ask, generally speaking.

Trevor answered it probably cost around 7 basis points but they could come back with some more clarification on that. Ultimately the way they answer that question is look at the alpha that they are generating from buying and selling right, the stock picking is far more important to them than the actual tradeoffs. The cost varies by market so they would have to come back with more accurate numbers. Their big focus was on the generation of alpha over time.

He said they use the Barra Global Equity Model (GEM 2) on post-portfolio construction to make sure they are providing consistency over time and making sure they are not taking any unintended risks for their customers. This leads to repeatability of performance.

Tim concluded by asking what the TSRS Board could expect from American Century Investments. Their goal is to meet or beat expectations both in investment performance and client servicing. They have dedicated portfolio managers that would be available as a resource any time they were needed. He gave information on Chat Cowherd from the dedicated relationship management team. He has 26 years of investment experience and works very closely with the institutional accounts, a lot of whom are in Arizona like the Arizona State Retirement System. He assured the Board that American Century was aligned with their long term goals in a few ways, one, their ownership structure was set up to make sure all their interests were aligned with the clients', secondly, their investment teams were motivated to perform on behalf of the client, third, their distinct growth philosophy gave them a true advantage over their competitors in that they could deliver alpha in all markets, and finally their low correlation to other managers who were growth and value managers would allow American Century to be an excellent complement to the Boards existing portfolio.

Paul asked what the expectation was for gross and the value added over the benchmark over time and how much variation did they expect along the way.

Trevor answered they look at 300 to 400 basis points over a market cycle, defined as 5 to 7 years, on a gross basis and 6% to 8% expected tracking error. It has actually been a lot better over the 14 years they have run the product and the alpha has probably been north of 500 basis points since 2001.

d. Board discussion and decision concerning selection of Non-US Small Cap Manager

Michael Coffey stated they did not have a basis for logical and coherent comparison. He saw three separate presentations but did not see any documentation that compares and contrasts them in terms of performance, fees, or quality of issues regarding their philosophies over different parts of the business cycle. He was looking at three discreet presentations and trying unsuccessfully to integrate and consider how they compare to each other.

Robert Fleming said it was always a challenge because the presentations focus on what the firms want to tell the Board, even if they ask questions.

Michael pointed out the firms did not use a common benchmark.

Robert asked Paul Erlendson and Gordon Weightman if they could provide some basis for comparison between the three firms.

Paul stated Callan had put together a booklet containing those comparisons when they began the search for firms and they could email that information to the Board. He agreed with Robert that the firms come in and say what they want because they are trying to get hired by the Board and the challenge was to make it a simple comparison. He expressed surprise each firm used a different benchmark. Arguably they were all looking for securities in the same market and the benchmark does not define what they would look at but there are data sources predicated on different indexes in terms of the statistical data they receive on companies and market behavior that the firms would use to apply their investment process. In general there was not a lot of difference between the firms.

Gordon explained the starting universe for these managers was not defined by the benchmark. He gave the board a basis for comparison. MSCI ACWI ex-U.S. Small Cap was developed in emerging markets and was used as a benchmark by American Century, they also listed the growth benchmark. Brandes uses that core benchmark as well. MFS uses the S&P Small-Mid Cap benchmark so they were also being compared to companies that had larger capitalization. MSCI and S&P have some differences in how they think about countries, are they developed or emerging.

Robert said it was harder to compare overweights and underweights by country and region, market capitalization, medians, and some of the other indicators presented. In a general way, he thought they should be looking at someone who is more small cap and he thought he knew who that was but it was hard to extract that information from what had been presented.

Paul said they had compared the firms side by side, considering a lot of these factors, as a part of the initial screening process. He explained that the data Callan had was from September, when the initial screening was performed, and did not include December 2014, so some of the regional diversity of the firms may have shifted over that time. At this stage a lot of that comparative work had already been taken care of in the process of deciding on three finalists from the initial 500 potential candidates. The turnover rate for MFS, who had $6B in their strategy, is only 20%. Brandes, who had only 60 to 80 names in their portfolios, had a higher turnover rate. He said providing the questions to the firms beforehand was meant to allow them to structure the presentations to provide the Board with comparable information, and speaks to the firm's client services showing if they were focused on the Board or if it is the same presentation they have given to every potential client. The fact that Brandes took the time and trouble to answer those questions shows that they are the most client services oriented firm, which does not necessarily make them a better asset manager.

Gordon pointed out American Century also structured their presentation around those questions; though they did not address them specifically they did try to answer them as part of their pitch.

Robert asked if Callan could provide a one page chart comparing the firms to be used in making the decision at the meeting of February 26, 2015.

Paul answered if the Board would provide them with the information they want compared they could provide that information summary.

Robert asked for the summary to include sector, regional, and country concentrations, market capitalization, and some comparison of performance history, number of holdings, and turnover.

Michael expressed apprehension over the inflection points on the downside because it seemed to include more risk. American Century seemed more active in their approach to investing and their point of inflection thinking which seemed to be very attractive on the upside.

Gordon answered it leads to more turnover within their portfolio, not necessarily in buying or selling names, but in slimming and adding to them over time.

Paul said this was in contrast to what Brandes said about picking price points in that it was useless.

Gordon said they wanted to provide information and could do it in a summary format that would be useful but it was important to keep in mind that if you are looking at sector and regional positioning amongst these managers you must take their philosophies into account. Brandes does not pay attention to the benchmark when constructing portfolios; they ask what the best idea is. American Century had tight restrictions around sector and regional exposures versus their benchmark. It is important to keep these philosophies in mind when considering those numbers.

Robert stated that the Board should decide what benchmark they would like to test these firms against because they were not limited to the benchmarks chosen by those firms.

Gordon offered to provide quick summary points about each of the firms. MFS has larger capitalization, more product assets because they are able to invest in larger companies. From a standard deviation perspective they are historically the lowest risk firm of the three. They are benchmark aware and have the most securities and low turnover. At Brandes the people picking the stocks value philosophy, more concentrated, higher tracking error so over discrete shorter periods they might have performance that has more relative volatility than the benchmark. They tend to be smaller in capitalization; some micro cap companies are included in their portfolio. American Century from a regional and sector perspective will look most like the benchmark; they add value not by taking sector and country bets, but by picking securities within them. They have more of a growth philosophy where they are looking at inflection points and sustainable earnings. They have 140% turnover, Brandes has 20 to 40%, and MFS has 50%.

Robert announced this item would be continued to the meeting of February 26, 2015, when they would make the decision.

Kevin said it would be important to consider if there was a particular segment they wanted to get involved in and how it would complement the rest of the Board's portfolio, because there were distinctions between the companies even though they all are a part of the small cap market. MFS seemed more mid cap than small cap. Brandes were very deep value managers and will have large deviations from the benchmark. American Century seems closer to what the Board was looking for in terms of a small cap manager, leaning more towards the growth side. He said it would be useful to recall what specifically the Board was trying to target.

3. TSRS Portfolio composition, transactions and performance review for 12/31/14

Allan Bentkowski provided a brief summary of investment performance highlights for the month ended December 31, 2014. He reported the Fund Balance as of 12/31/15 was at $728.9M compared to $736.5M as of 11/30/14 (an all-time high for the plan). As of 1/21/15 the balance was at $725.4M which shows how the value of the account has fluctuated over time as it tends to mirror market value movements, especially in the equity markets. All of the US equity managers had actuals over the target ranges but were within the range of minimums and maximums.

Calendar month returns – The Total Fund return was -0.68%, net of fees, vs. the benchmark return of -0.48%. Total Fixed Income for the month returned -0.78 % vs. 0.09% for the Barclays Aggregate Index Benchmark. Total Equities for the month returned -0.79% vs. -0.75% for the Equity Composite. Total Real Estate returned 1.12% for the month, there is not comparison because the real estate returns are reported on a quarterly basis and the quarterly returns as of 12/31/14 were not available yet. Total Infrastructure returned -1.58% vs. -0.24% for the CPI +4% index.

On a calendar YTD basis, the Total Fund returned 7.04%, net of fees, vs. the Custom Plan Index of 7.55%. Total Fixed Income returned 5.37% vs. 5.95% for Barclays Aggregate Index. He said the passive US equity managers, Alliance S&P Index, Blackrock Value, and PIMCO Stocks Plus (Enhanced Index) are always pretty close to their respective indexes, as they should be. He focused on 2 actively managed accounts that significantly underperformed, T. Rowe Price returned 8.75% vs. 13.06% for Russell 1000 Growth. Champlain returned 8.15% vs. 13.23% for Russell Midcap. Overall, Total Equities returned 7.53% vs. 8.18% for the Equity Composite. The absolute return on the Real Estate account was 9.46% vs. 8.89% for NCREIF through 9/30/14. Total Infrastructure returned 5.58% vs. 4.79% for the CPI +4% index. If this was a fiscal YTD instead of calendar YTD Plan returns would be off of the mark as far as the discount rate. The discount rate or the assumed rate of return is 7.25% vs. the calendar year return of 7.04%. He also advised the quarterly YTD returns were available in the meeting materials. The fiscal YTD Total Fund return was 1.31%, net of fees, vs. 1.71% for the Custom Plan Index. The Mellon Trust securities lending and custodial fee summary shows net earnings of $38,457 in securities lending income, and custodial fees of $73,879 excluding December 2014.

Allan explained rebalancing continues to occur on a month to month basis. This involves identifying managers significantly over their target policy allocations vs. their actual and moving money out of those accounts used to fund the Fund 072 internal account to make payments to retirees. Over the last several years there has been a shortfall between what is contributed by the employer and employees and payments being made to retirees; and they have to compensate for the shortfall every month. Fiscal YTD $13.9M has been moved out of the plan for this purpose.

E. **Articles for Board Member Education / Discussion** (This item was taken out of order.)

1. Further Management Changes at PIMCO (Callan information on PIMCO Management changes 1/13/2015)

Gordon Weightman said the Board had about $150M with PIMCO, one was Stocks Plus which is a large cap equity option, and the other was a custom separate account in the fixed income portion of the portfolio. There have been a lot of changes at PIMCO, Mohamed El-Erian left in early 2014, and Bill Gross who was a star portfolio manager and one of the cofounders of the firm left in the latter half of 2014. A new structure was put into place to manage the firm and portfolios, and to fill the gaps left by Mohamed El-Erian and Bill Gross. One of the key players was Saumil Parikh, who is the listed portfolio manager on the unconstrained bond strategy at PIMCO and was not directly involved with the buying and selling of securities in either of the Board's portfolios. He has been the chair of their secular forum and that is important because the secular forum helps set the macro views and influences all of the portfolios at PIMCO. They make big picture decisions on interest rates, sector exposure, valuations, etc. and that all trickles down to the portfolios, including the separate account in which the Board is invested. Saumil Parikh has also left PIMCO. The loss of some of their key personnel does not directly influence the Board's portfolios; however the idea was that as the chair of the secular forum he played a part in the investment management decisions.

Paul Erlendson explained that a lot of money has been leaving PIMCO and they have lost around 35% of the assets they used to have. There are a lot of good things that have happened at PIMCO but one of their concerns was if the people who will be leading the organization decide to leave three months after the announcement of their promotion, they wonder what is happening at PIMCO. Next Thursday Callan will have 6 of their senior researchers in New Port Beach, spending the day at PIMCO looking for some stability within the organization.

Michael Coffey asked if the portfolios at PIMCO were passively managed.

Paul said no, they were very actively managed. Gordon explained the S&P 500 exposure they get through futures and forwards contracts and then they take the assets and invest them in a short term fixed income portfolio.

Allan Bentkowski explained the PIMCO stocks plus was an enhanced index account and should outperform the index over time, as opposed to Alliance and Blackrock which are strictly passively managed accounts. He asked if as a group at Callan, were they strongly concerned or mildly concerned over the changes at PIMCO. He asked if they should continue to monitor the returns and if they continue to be good retain the PIMCO accounts while avoiding taking action based on an overreaction.

Paul said it was always best to avoid an emotional overreaction. He said the man who left PIMCO was not making individual transaction decisions, if that were the case there would be more urgency. This seemed to be more of an organizational issue, PIMCO has hundreds of employees and as long as those people remain and the product does not suffer Callan was okay with it. It is when someone has been given the promotion of their career and then leaves three months later with very little explanation it makes people wonder what happened, and if there is something about the culture at PIMCO that could make other promising people decide to leave Callan wants to be in front of it. They do not see any urgency but things do need to settle down and stabilize at PIMCO.

Paul said in short they did not think that the TSRS Board had anything to worry about regarding PIMCO but they wanted to bring what was going on with the larger organization and the culture of the company to the Board's attention, because PIMCO was promoting how they had everything under control and this action is contrary to that so they wanted to find the cause.

D. Administrative Discussions

1. 2014 Disability Audit Report

Michael Hermanson advised the Board he had been attempting to complete the disability audit review of those members that have not reached the normal retirement age or 80 service credits. There are 159 retirees or beneficiary survivors receiving a disability type benefit, of the 159, there were 44 audits sent out during the year. After several attempts responses had been received from 42 of the retirees audited. He recommended discontinuing the benefits to the two non-compliant individuals as an attempt to garner their attention. This action was provided for in the Tucson Code. He said three attempts were made to contact the audited individuals; the last attempt took place in December 2014 and indicated the recipients benefits would be discontinued at a lack of response. The audit responses required completion of a simple affidavit indicating whether the retiree had earned any income. The audited individuals were not new or recent retirees. If the Board approved the recommendation the action would affect the January pension check of the non-compliant individuals. This action has been taken in the past for isolated cases and the reason for the audits was if the individual receiving disability benefits has another source of income adjustments may be required on their pension checks. This action has been successful in the past.

2. Board approval of benefit changes resulting from non-compliance

A motion to discontinue benefits for non-compliance regarding the 2014 Disability Audit was made by John O'Hare, 2nd by Eric Kay, and approved by a vote of 5 to 0 (Robert Fleming and Curry Hale absent).

E. Articles for Board Member Education / Discussion

1. Further Management Changes at PIMCO (Callan information on PIMCO Management changes 1/13/2015)

This item was taken out of order and considered after item C3.

F. Call to Audience

Jenefer Carlin suggested the calendar YTD pension amount be listed on the quarterly statement sent to retirees.

G. **Future Agenda Items**

1. February 26, 2015 TSRS Board meeting – Causeway Annual Manager Review, Due Diligence Interview for International Opportunity Strategy Fund (Emerging Equity Market Strategy)
2. March 26, 2015 meeting - Board Governance Policies and Fiduciary Training Refresher – Cassie Langford, and T Rowe Price and Pyramis Annual Investment Manager Reviews

H. **Adjournment** – 11:35 AM

Approved:

R Fleming	2/26/15		02-26-15
Robert Fleming Chairman of the Board	Date	Michael Hermanson Plan Administrator	Date