TUCSON SUPPLEMENTAL RETIREMENT SYSTEM
BOARD OF TRUSTEES
Meeting Minutes

DATE:	**Thursday, May 23, 2019**
TIME:	**8:30 a.m.**
PLACE:	**Human Resource Conference Room, 3rd floor East City Hall, 255 West Alameda Tucson, Arizona 85701**

Members Present:	Joyce Garland, Finance Director Ana Urquijo, HR Director Michael Coffey, Elected Representative and Acting Chairman James Wysocki, Elected Retiree Representative (Arrived at 8:39 am) Jorge Hernández, Elected Representative Kevin Larson, City Manager Appointee
Staff Present	Art Cuaron, Pension & Benefits Administrator Tina Gamez, Administrative Assistant
Guests Present	Dave Deibel, Deputy City Attorney Pete Saxton, Pension Manager Gordon Weightman, Callan LLC Jay Kloepfer, Callan LLC Taylor Alan Lee, Causeway Capital Management Ellen Lee, Causeway Capital Management
Absent/Excused:	Mark Rubin, Chairman

Acting Chairman Michael Coffey called the meeting to order at 8:30am

A. **Consent Agenda (00:00-00:22)**
  1. Retirement Ratifications for May 2019
  2. April 2019 TSRS Budget Vs. Actual Expenses
  3. April 2019 Board Meeting Minutes
  4. TSRS April Investment Measurement Service Monthly Review

A motion to approve the Consent Agenda was made by Jorge Hernandez, 2nd by Kevin Larson, and passed by a vote of 5 to 0 (Mark Rubin and James Wysocki absent/excused).

B. **Call to Audience (00:23-00:29)**

None heard

C. **Investment Activity Report**
  1. Investment Manager Review – Causeway Capital Management **(00:30-43:36)**

Taylor Alan Lee thanked the City of Tucson for their 14 year relationship with Causeway. Causeway has managed assets on behalf of TSRS since January 2005. TSRS is invested in Causeway's International Opportunities Strategy, investing across developed non-US markets as well as emerging markets. Taylor provided some general information about Causeway's Portfolio Manager for the Consumer Sector, noting that he has resigned in the last year. The manager has agreed to stay with Causeway for more than 6 months to ensure a smooth transition of responsibility to the new team.

Art briefed the Board about the Asset Liability Model Report. In 2014, the Board commissioned an Asset Liability Model and made changes to adopt a different allocation. That allocation has remained the same from 2014 to now. Prior to the 2014 report, TSRS had a 46% equity allocation that was in US equity; this was reduced to 34% with part of the portfolio going to international equity; an increase from 15% to 25%. In addition, the changes added 1% to fixed income and another 1% to real estate.

Jay Kloepfer indicated that the investment policy is the most important decision the Board will make. It should be made in light of all other information available to the Board. The basic equation of every investment plan is that benefits plus expenses equals investment returns plus contributions. The current asset allocation is very comparable to the median allocation of other public pension funds.

The funding status of the TSRS has changed. TSRS is in a better position than it was and he doesn't see a strong reason to change investment strategy. Our liquidity needs are better than they could be, due to the City contributing more than the normal required rate. If TSRS were to achieve full funding then it would be recommended to return to the normal required cost.

The liability model is a plan document that defines the type and the levels of benefits provided to retirees. The demographic assumptions are important because it impacts the actuarial valuation, which determines the estimated liabilities. The economic assumptions are the discount rates that also serve as the plan's target return, salary inflation and cost of living adjustments.

The modeling program projects what the plan looks like every year. The plan is at 78% market funded compared to 5 years ago when it was 62% funded. Our investment return rate has been brought down to 7.0%, with salary increases at 3.0%.

The funding policy of 27.5% is more than the actuarially determined contribution and this rate multiplied by pay is how the employer contribution is calculated in dollars. The funding policy is modeled to revert to normal cost plus amortization of unfunded liability once the plan reaches full funding.

The simulated actuarial liability does not change because of different investment policy mixes; it is a result of the payroll for the population of retirees and potential retirees. The liability grows, then it starts declining after the fifth year. This is partly because TSRS members that are defaulted into Tier II, have less retirement benefits.

The net outflow is equivalent to 5% of total assets, which Callan believes is manageable. Between 5 to 8% can be managed, depends on the illiquid investments; TSRS is currently at 14% illiquid investments.

Art commented that TSRS is still reaching funding status even being at a lower discount rate.

Jay Kloepfer explained our current target with asset mixes. Callan's expected return of the current asset mix is at 6.65%, with a standard deviation at 12.83%. However, this has an inflation assumption of only 2.25% and a real return of 4.4%. TSRS has policy objective of 7.0% nominal return with 3.0% inflation which implies a real return at 4.0%. Therefore, the TSRS will likely achieve the real rate of return.

The capital market projections could be a wide range of results, but in general there will be an averaging of good years and bad years with a net results closet to 6.65%, without taking into account any alpha added by asset managers.

Callan recommends continuing investment in private infrastructure, but implementing these investments can be a challenge. TSRS could look at private real estate as an alternative to private infrastructure. Callan would recommend an open-end funds rather than closed-end funds. Open-end funds are reinvesting throughout the life cycle verses a closed-end fund which requires an investor to purchase an interest and hold to maturity.

Jay Kloepfer indicated that TSRS currently does not have any private equity. Private equity is ownership and doesn't trade on the stock market. It is comparable it to the S&P 500 as follows. Within the S&P 500, an investor can sell stocks and get paid; unlike private equity where an investor cannot direct a manager to sell. This additional risk and giving up of control is what makes private equity demand a higher return. The plan that the Board had put in place five years ago is appropriate now. We have better results due to our investments.

The Board provided direction to Art to wait until June's meeting for additional information to continue with open ended infrastructure or real estate.

Presentation given by Jay Kloepfer and Gordon Weightman, discussion held. No formal action taken.

D. **Articles & Readings for Board Member Education / Discussion**
   1. Higher Risk Not Translating to Similar Returns for U.S. Pensions
   2. Pensions Have Tripled Their Investment in High-Risk Assets. Is It Paying Off?
   3. Why Low Inflation Has the Fed Concerned Right Now

E. **Future Agenda Items**
   1. TSRS Rules and Regulations
   2. PRBI Research

F. **Adjournment**

A motion to adjourn the meeting was made by James Wysocki, 2nd by Ana Urquijo, and passed by a vote of 6 to 0 (Mark Rubin absent/excused).

Adjourned 11:19 AM

7/22/19

Mark Rubin — Date
Chairman of the Board

7/23/19

Art Cuaron — Date
Pension & Benefits Administrator