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

Meeting minutes from Thursday, March 26, 2015
Finance Department Conference Room, 5th floor
City Hall, 255 West Alameda, Tucson, Arizona 85701

Members Present:	Robert Fleming, Chairman Curry Hale, Interim HR Director Silvia Amparano, Director of Finance Michael Coffey, Elected Representative Eric Kay, Elected Representative John O'Hare, Elected Retiree Representative
Staff Present:	Dave Deibel, Deputy City Attorney Michael Hermanson, Plan Administrator Allan Bentkowski, Treasury Finance Manager Dennis Woodrich, Lead Pension Analyst (departed 9:00 am) Dawn Davis, Administrative Assistant
Guests Present:	Jenefer Carlin, CTRA Representative Lourdes Lopez, City of Tucson Employee Jose Martinez, Spouse of Lourdes Lopez Sue Curran, Pyramis Global Advisors Ethan Hugo, Pyramis Global Advisors David Orlando, T. Rowe Price Ronald Taylor, T. Rowe Price
Absent/Excused:	Kevin Larson, City Manager Appointee

Call to order- Chairman Fleming called the meeting to order at 8:33 AM.

A. **Consent Agenda**
1. Approval of February 26, 2015 TSRS Board Meeting Minutes
2. Retirement ratifications for March 2015
3. February 2015 TSRS expenses and revenue compared to budget

A motion to approve the Consent Agenda was made by Silvia Amparano, 2nd by Eric Kay, and passed by a vote of 5-0 (Kevin Larson absent, Chairman Fleming did not vote).

B. **Application For Medical Retirement** – Lourdes Lopez

Michael Hermanson advised that Lourdes Lopez was present to answer any questions the Board may have for her.

A motion to enter Executive Session was made by Curry Hale, 2nd by Eric Kay, and passed by a vote of 5-0 (Kevin Larson absent, Chairman Fleming did not vote).

A motion to return to Regular Session was made by Eric Kay, 2nd by Curry Hale, and passed by a vote of 5-0 (Kevin Larson absent, Chairman Fleming did not vote).

A motion to approve the Disability Retirement Application of Lourdes Lopez was made by Michael Coffey, 2nd by John O'Hare.

During discussion, Curry Hale stated this was a difficult decision because he understood the applicant's position with the various surgeries completed on her throat and knee; from which she is still recovering; and another pending knee surgery that may take more time to recover, but this Board is tasked with approving applications based on total and permanent disability. Continuing, he stated this situation is very out of the norm with the extended recovery times, because they have already exceeded the 12 month period available. Additional time only makes it more difficult on the department because they are holding the applicant's position for an extended period of time.

Michael Coffey said City policy protects employees on medical leave for up to 12 months, and the application for disability assumes permanent disability. This case does not fit into either of those frames which makes it a difficult decision.

John O'Hare asked if the applicant's department could hire a temporary employee to fill the applicant's position. Curry Hale explained this would involve the department getting permission to over hire and then have to lay-off or find another position for the temporary employee and many departments are reluctant to do this. He confirmed the department could get a temporary employee from an agency, if budget allowed, to get the work done.

The motion passed by a vote of 3-2 (Silvia Amparano and Curry Hale dissenting, Kevin Larson absent, Chairman Fleming did not vote).

John O'Hare agreed with Michael Coffey that the system did not accommodate a situation such as this one.

Silvia Amparano stated from a fiduciary standpoint the Board's role was to consider whether the disability was permanent, and in this case the applicant would be able to come back to work eventually making it a tough decision. The department is suffering because they do not have a body in the position but she had to look at it from the fiduciary standpoint.

Chairman Fleming stated this item was finished and there should be further discussion on the criteria and considerations to eliminate the grey area exhibited in this case, but that it needed to be an agenda item for a future meeting or the Board retreat.

C. **Investment Activity Report**

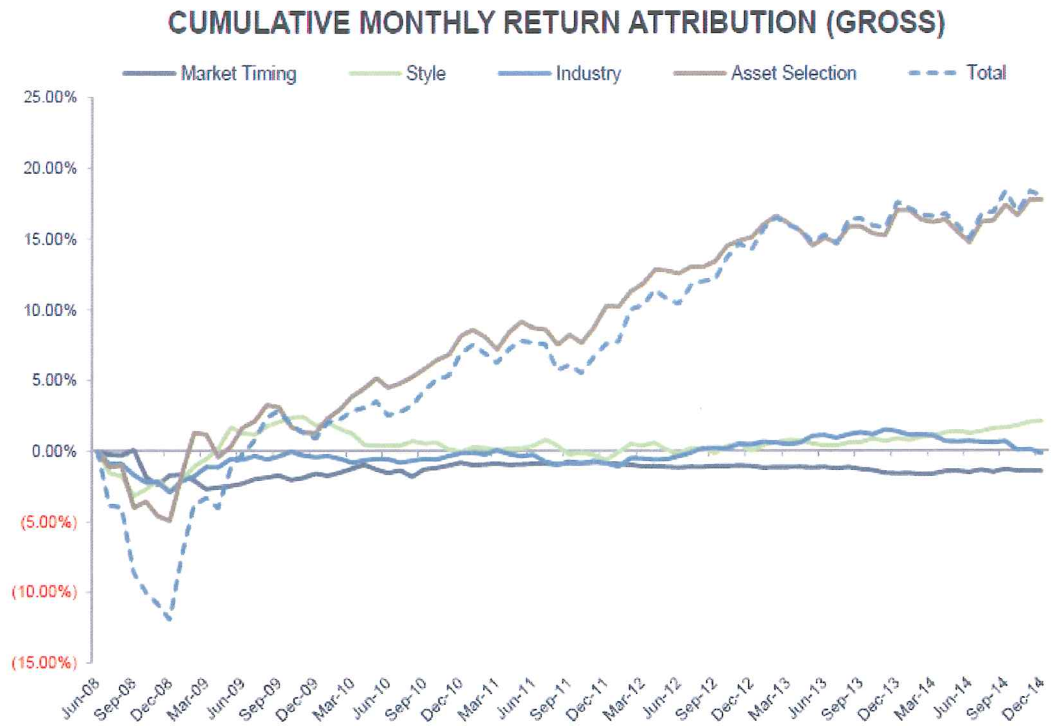
1. Annual Manager Review – Pyramis – Sue Curran, Ethan Hugo

Ethan Hugo explained the basis of their firms' investment strategy and the philosophies behind it. At its most basic level, Pyramis believes fundamental research, stock and industry selection generate long term, consistent and sustainable alpha in the small cap universe. In doing so, they seek to eliminate a lot of other risks that portfolio managers tend to take which create volatility without much promise of excess return over time. They do not try to time the market, they keep their sector weightings neutral to the benchmark, avoid enormous style drift, and try to pick stocks that will outperform the market. The other important point he wanted to emphasize was they maintain a discipline philosophy. Their core competencies are in fundamental research and stock selections, so all decisions made for the portfolio test those decisions and reflect the fundamental strength of the portfolio, which is implementing a portfolio that is balanced across the style spectrum so that stock picking is what generates excess returns.

He said his point was illustrated by the graph on page 33 of the materials distributed prior to the meeting:

Stock Selection Drives Performance

Barra Attribution from July 1, 2008 – December 31, 2014



Ethan said the graph is a 6.5 year chart reflecting his tenure as the portfolio manager and illustrates the point that asset selection is driving virtually all of the positive relative performance in the strategy and the other things like market timing, style, and sector bets are generating very little alpha.

Sue Curran said it was important to look at the chart as a proof statement of what Ethan does because he says he uses the analysts and their bottom-up fundamental research and the chart shows the portfolio performance depends highly on the selection of those stocks.

Ethan explained the lines showing performance attribution, indicating whether performance was caused by maket timing, style, industry or asset selection, providing some indication of whether they made the correct bets relative to their benchmark, the Russell 2000. If the benchmark has 4% in airlines and the portfolio does not include any airlines and airlines out perform the index it will hurt the portfolio in the industry contribution attribution, but if airlines under perform not owning any will result in positive attribution in the portfolio. He said they were active at the industry level and he hoped that industry could add value over time because even though they stress stock picking analyzing industries is a part of their fundamental analysis. The analysis of an industry is critical to stock selection but historically they have been better able to generate alpha through individual stocks as opposed to industry.

Chairman Fleming asked, because Ethan was the final decision maker for the portfolio, what percentage of his time was spent traveling, in meetings, and actually making portfolio decisions. Ethan answered that he spent between 85% and 90% of his time managing the portfolio because, of their 30 clients there are only 1 he meets with more than once a year, and fewer than 10 he sees annually. The firm manages $2.1B in assets in the strategy, and they have done a lot of work to analyze their full capacity is, finding that it is close to $4B. He said that he does spend some time on marketing but estimates at most, it is not more than 15% of his time.

Sue added, they have sufficient bench strength as they have an institutional portfolio manager or an investment director that can sit in on meetings, they don't make the decisions but they are able to answer any questions for Ethan and Sue.

Ethan said as products have grown, in terms of the number of clients, they have added resources around the products to take the burden off of the portfolio managers because their current clients and performance are most important. He said that he found real value in meeting with clients like this because in preparing for the meeting he takes another look at the portfolio and considers what is working, what is happening in the world, and what the overall environment of the market is.

Chairman Fleming asked if Ethan had ever noticed something needed to be changed because he was preparing for a meeting with a client.

Ethan answered generally no because their risk management and oversight process includes a very indepth monthly report produced by their risk team. He meets at least quarterly with the risk oversight review committee which includes the CIO, and that is when they look at any elements of style that are driving the expected tracking error of the portfolio. They stress test the portfolio based upon extreme scenarios like another financial crisis or oil price plunge. They also have tools on their desktops that allow them to see this, so it is not common for him to realize something new while preparing for client meetings. It is also about making sure that any tilts are intended. There are more than 200 stocks in this portfolio and he knows what they do and what industries they are in, but in terms of hardcore analysis he cannot just look at the portfolio and know what the interest rate sensitivity is because it is pervasive across the whole thing. He said the Board had asked about Pyramis Research and Fidelity Research, they use both. Generally all of the ideas in the portfolio are fundamentally buy stocks rated on one part of the platform or the other, either Pyramis or Fidelity.

Ethan said they had recently added another dedicated US small cap anaylist to bring the total up to 4. He uses both Pyramis and Fidelity Research in conjunction with one another and most of the stocks in the portfolio have some degree of influence from a Pyramis analyst or a sector leader though that does not generally mean that the genesis of the idea was Pyramis. Sometimes an idea is presented that is a piece of industry research or a stock idea that is initiated at the Fidelity level, which can drive a different decision or enhanced view from a Pyramis analyst. Sometimes Fidelity will rate a stock as a buy and a Pyramis analyst may have a different view from an industry higher level and it will inform the decision. The different information from Fidelity and Pyramis work together to drive the positions for the portfolio.

Ethan said they do not tend to buy mid cap stocks, they buy small cap stocks which tend to grow. Pyramis will, at times when the risk reward is compelling, stretch a little bit above the typical cap of the Russell 2000 but generally they buy small cap stocks. The issue they struggle with is balancing idea generation and turnover with market cap and the Russell 2000 index shrinks in market cap at the end of every June. The Russell 1000 holds the 1000 biggest stocks and the Russell 2000 holds the next 2000 stocks. Any star performer in the Russell 2000 grows in market cap and at the end of June it is moved over to the Russell 1000 and all the underperformers in the Russell 1000 drop into the Russell 2000. So if a manager does not force themselves to reduce their market cap and sell the larger stocks the market cap will be larger than the index. There have been a couple of times when he has sold larger stocks despite the research that said it was a good stock, and both times it turned out to be a mistake. When looking at a crude metric like the weighted average market cap or median market cap of a portfolio relative to the benchmark it shows very little about how much of the tracking error or performance is coming from a tilt or a bet in the portfolio. One of the things he has always focused on, knowing the portfolio is a little bit bigger than the benchmark, is what degree of risk does that expose the portfolio to. Typically on a risk basis it is not driving much of the risk of the portfolio, there have been times when it has and that is when he reigns in the size bet in the portfolio, so that if the portfolio under performs it is because of the stock selection not because they were bigger than the market and small stocks were what performed. He stated that the portfolio truly behaves like a small cap portfolio.

Chairman Fleming asked if it was safe to say that the stocks that drop from the Russell 1000 into the Russell 2000 were mostly unattractive, or do they become attractive when their capitalization changes.

Ethan said he could not make that generalization. This year would be a good example because a lot of energy companies will drop because the price of oil has affected them negatively, and that is a situation where it is cyclical based on a commodity and if oil returns to $70 or $80 those energy companies will be very attractive.

Ethan said in anwer to question 5 of the 8 provided by the Board prior to the meeting, they sell when stocks reach their price target or when they decide the are wrong. He focuses on always using fundamental research and making rational decisions so to say that a stock is down 40% it is time to sell it is mechanical, does not reflect fundamental research, and is not and example of rational decision making.

Allan Bentkowski asked if it was a difficult decision in trimming a stock when it is a good stock but growing into the mid cap space.

Ethan answered he fundamentally believed that if he bought a stock at $10 and it goes to $20 the position size is going to have doubled. He said the odds of the stock being more attractive at $20 than it was at $10 are pretty low. The stock is still attractive but he owns twice as much, making it less attractive. He said many managers get excited when this happens, but the reality is that they should not own double at $20 of what they did at $10, they should probably own less and this is why he tends to add to and trim positions. He said turnover tends to be between 75% and 90% but that was not reflective of the number of names coming in because it included adding and triming the positions; their core turnover was closer to 40% to 50% for the portfolio.

Chairman Fleming asked what would be the strong and weaker markets.

Ethan said he did not think there was really an answer to that question because Pyramis is so style agnostic. If a manager leans toward growth when cyclical stocks out perform that manager is going to systematically underperform. Pyramis does not have those types of biases. He said the two times in history this strategy has meaningfully out performed was when there were big inflections in the market. One of those inflections was the financial crisis so everything cyclical went down. The other inflection was in the early 2000's after the tech bubble burst, when things started to recover and the market became a bull market again this strategy under performed. He thought is was more likely that a big inflection like that might cause under performance because when what a manager is doing is working they build momentum which can cause under performance when anything changes in a positive or a negative way in the market. Ethan said his desire was to keep that under performance small, this is assisted by the intense risk management system.

Allan pointed out a manager has no control over the macro environment.

Ethan answered they tried not to bet on a macro environment and they tried to let stock selection drive the portfolio. He said it was not getting the macro environment wrong that could cause under performance so much as a change in the macro environment that could cause underperformance.

Chairman Fleming asked what was Pyramis' outlook for US equity markets in 2015.

Ethan answered he believed it would be a choppy year because even though they had started off well he thought a lot was changing within the market and he worried about things like the strength of the dollar, the US industrial complex, the Fed potentially raising rates, and oil prices because so many end markets are tied to oil. When there is global commodity deflation and a strong dollar it is troubling for emerging market countries which could have an impact on the US. On the other side of that it looks like Europe may be bottoming which would be great for the global economy. The market likes trend and he thinks there is a lot of uncertainty in the coming year.

John O'Hare said he thought they had said they would like to be evaluated on 150 basis points over the index over the market cycle rather than just exceeding it.

Michael Coffey said on page 5 of the materials distributed, under expectations it says the small cap strategy seeks to outperform the Russell 2000 Index by 300 basis points annualized over a full market cycle.

2. Annual Manager Review – T Rowe Price – David Orlando, Ronald Taylor

David Orlando said that assets continued to grow at a steady pace, on 12/31/14 they were at $750B, 75% of which in equities and 25% in fixed income. The company is healthy with no long term debt on the books and with about $3.5B in cash and cash equivalents.

Ronald Taylor explained T. Rowe Price is a fundamentally based shop. The US Large-Cap Growth Equity Strategy was launched in the fall of 2001 by Robert Sharps with $2M of firm seed money, today it is $37B and they are the largest institutional manager in the US. Robert Sharps makes all buy and sell decisions for the portfolio. In general they look for companies that are at least $5B in market cap at the time of purchase, and the analysts do a significant amount of work. There are 139 analysts, located around the world, on the equity research team. They are focused on a particular sector; within that sector they will cover 25 to 40 companies within a particular industry. Based on their focus they are asked to find the best ideas that are at least $5B in market cap and will grow earnings at least 12% per year over a 3 year forecast period. The goal is to construct a portfolio that out performs the benchmark by 200 basis points gross of fees, and 150 net basis points over a 3 year period.

Allan Bentkowski asked for further clarification on the analysts pick of stocks that eventually get to Robert Sharps.

Ronald answered the analysts job was to look at those 25 to 40 companies using a rating system of 1 through 5; 1 is a strong buy, 2 is a standard buy, 3 is neutral, and 4 and 5 underperform. Of those 30 stocks 10 may be rated a 1 or a 2, and of those 10 stocks 2 may be appropriate for small cap growth, 2 may be appropriate for mid cap value. The analyst will sit down with the team to make the case as to why a stock should be in the portfolio, but the stock is not added to the portfolio simply because an analyst recommends it. All of the current portfolio managers at T. Rowe Price started with the firm as analysts so they can still consider themselves analysts and like to pressure test the models to make sure they should be in the portfolio.

Ronald described their research process as being fundamentally based. They are not a firm that favors certain industries and tries to find stocks within those industries. They depend on their analysts, as the expert in their space, to show them some ideas that on a competitive basis will be bigger, stronger, and have more market share than the competition over 3 years. The analysts also help them understand the dynamics in terms of the competitive environment. 75% of their alpha comes from stock selection.

Ronald explained why they underperformed in calendar year 2014. He said the Board had been with T. Rowe Price for three years and that over 3 and 5 years they have added significant value to the portfolio in relative to the Russell 1000 Growth benchmark. In calendar year 2014 they underperformed by roughly 3.66% relative to the benchmark, but in 2013 they outperformed by 11.9%.

Performance Comparison

U.S. Large-Cap Growth Equity Representative Portfolio* Relative to the Russell 1000 Growth Index

This material is intended for institutional investors who are existing clients of the U.S. Large-Cap Growth Equity Strategy. This material has been prepared by T. Rowe Price Associates, Inc. for information purposes and is not intended to be investment advice or a recommendation to take any particular investment action. This material should not be redistributed, in whole or in part, without prior written consent by T. Rowe Price.

Absolute Returns (%)

2013 Top 10 Relative Contributors	Calendar 2013	March-April 2014	Calendar 2014	Calendar 2013-2014 (cumulative)
Gilead Sciences	104.5	-5.2	25.5	156.7
Google	58.4	-12.1	-5.4	49.9
Amazon.com	59.0	-16.0	-22.2	23.7
Priceline	87.4	-14.2	-1.9	83.8
Boeing	83.7	0.1	-2.6	78.9
McKesson	67.4	-4.4	29.2	116.0
Las Vegas Sands	73.9	-6.6	-23.7	33.4
Facebook	105.3	-12.7	42.8	193.1
Netflix	297.6	-27.7	-7.2	268.9
Biogen Idec	91.0	-15.7	21.4	131.9
March 2014 Top 10 Underweights	**Calendar 2013**	**March-April 2014**	**Calendar 2014**	**Calendar 2013-2014 (cumulative)**
Apple	7.6	12.1	40.0	49.8
Microsoft	43.7	5.5	27.2	81.8
IBM	-0.1	6.1	-12.2	-12.1
Verizon Communications	18.4	-0.7	-0.4	17.9
Coca-Cola	17.0	7.6	5.2	22.9
Oracle	15.5	4.8	18.8	37.1
Qualcomm	22.1	5.0	2.3	24.9
Philip Morris International	8.5	6.7	-2.1	6.3
Schlumberger	31.8	9.2	-3.4	27.4
Comcast	41.0	2.7	16.8	64.3
	Calendar 2013	**March-April 2014**	**Calendar 2014**	**Calendar 2013-2014 (cumulative)**
Benchmark: Russell 1000 Growth Index	33.5	-1.0	13.0	50.9
US Large-Cap Growth Equity Composite (Gross of Fees)	45.31	-7.50	9.26	58.77
US Large-Cap Growth Equity Composite (Net of Fees)[1]	44.61	-7.58	8.72	57.21

[1] Net of fees performance reflects the deduction of the highest applicable management fee ("Model Net Fee") that would be charged based on the fee schedule appropriate to you for this mandate, without the benefit of breakpoints. Please be advised that the composite may include other investment products that are subject to management fees that are inapplicable to you but are in excess of the Model Net Fee. Therefore, the actual performance of all the portfolios in the composite on a net fee basis will be different, and may be lower, than the Model Net Fee performance. However, such Model Net Fee performance is intended to provide the most appropriate example of the impact management fees would have by applying management fees relevant to you to the gross performance of the composite. Past performance cannot guarantee future results.

Supplemental Information. See GIPS® Disclosure for additional performance information.

* The representative portfolio is an account in the composite that we believe most closely reflects current portfolio management style for the strategy. Performance is not a consideration in the selection of the representative portfolio. The characteristics of the representative portfolio shown may differ from those of the composite and of the other accounts in the composite. Information regarding the representative portfolio and the other accounts in the composite is available upon request.

The information shown does not reflect any exchange-traded funds that may be held in the portfolio.

The specific securities identified and described above do not represent all of the securities purchased, sold or recommended for clients in the composite and no assumptions should be made that the securities identified and discussed were or will be profitable.

The top portion of the table shows the top 10 stocks having the biggest positive impact on the portfolio at the end of 2013. They ended 2013 believing that many of the stocks for the emerging and rapidly growing companies were stretched and becoming more expensive so they began trimming some of them at the end of 2013 and the beginning of 2014. At the end of February 2014 the portfolio was ahead by 200 basis points for that 2 month period. The market shifted in March and April of 2014 and as a result the stocks that were so strong in 2013 were down. Looking at the cumulative 2 year number shows 7 of those top 10 outperformed the benchmark return of 50.9%; the portfolio, on a composite basis, over 2 years outperformed by 7.5 % to 8%. He told the Board to look at the March 2014 numbers; they are for stocks that were some of the better performers in the March to April period and T. Rowe Price does not own many of the stocks because they do not meet the growth criteria. When the market turned defensive there was a significant pullback but those stocks did very well in that particular period when you look at their numbers over 2013 and 2014 and combine them, 8 out of 10 of them underperformed the benchmark over 2 years. When the numbers are isolated over one year it shows that it was a very defensive year.

Overweights

U.S. Large-Cap Growth Equity Representative Portfolio* Relative to the Russell 1000 Growth Index

	As of December 31, 2014			2014		2013		2013 - 2014
10 Largest Overweights	% of Rep Portfolio	% of Index	Difference	Absolute Return	Net Contribution	Absolute Return	Net Contribution	Absolute Return (cumulative)
Danaher	3.2%	0.1%	3.1%	11.5%	0.3%	38.3%	1.1%	54.2%
Visa	4.3	1.2	3.1	18.5	0.7	47.8	0.1	75.0
Priceline	3.6	0.6	3.1	-1.9	0.0	87.4	1.8	83.8
Amazon.com	3.9	1.1	2.8	-22.2	-0.8	59.0	2.0	23.7
McKesson	3.1	0.4	2.7	29.2	0.6	67.4	1.2	116.0
American Airlines	2.8	0.4	2.4	113.2	0.9	2.6	0.0	118.8
Boeing	3.3	0.9	2.4	-2.6	0.0	83.7	1.3	78.9
Google	5.1	2.8	2.3	-5.4	-0.1	58.4	1.6	49.9
Wynn Resorts	2.3	0.1	2.2	-20.2	-0.7	78.9	0.2	44.0
Alexion Pharmaceuticals	2.6	0.3	2.2	39.2	0.4	41.8	0.3	97.4

	2014 (%)	2013 (%)	2013 - 2014 (%) (cumulative)
Benchmark: Russell 1000 Growth Index	13.0%	33.5%	50.9%
US Large-Cap Growth Equity Composite (Gross of Fees)	9.26	45.31	58.77
US Large-Cap Growth Equity Composite (Net of Fees) [1]	8.72	44.61	57.21

The net contribution column shows the impact the 10 largest overweights had on the portfolio. Amazon.com and Wynn Resorts cost the portfolio 80 and 70 basis points respectively. Amazon is a controversial stock because they have billions of dollars in capital spending and people have questioned the sense of it. Amazon has been in this portfolio since 2006 they have an average cost of 37 and the stock today is 370. They feel they know the company though Amazon could do more for transparency regarding the financials for their cloud services because the ecommerce part of their business is trading less than Walmart. The stock was up $50 in January, on the announcement today the stock is up 22% today and is the reason the portfolio is up 240 basis points vs. the benchmark today. T. Rowe Price's belief that ecommerce will continue to grow consistently over time is reflected in Amazon. Macau is the epicenter of gaming, worldwide, earned $45B in revenue as an industry while Las Vegas only earned $7B. Wynn Resorts is building a new property in Macau called the Palace, on the Cotai strip. It will be a $4B property which they believe will generate significant cash flow. The stock has been under pressure due to the Chinese government. T. Rowe price purchased more of their stock while it was down and they believe that over time it will be rewarding for them. Amazon and Wynn resorts were responsible for 150 basis points, which is half of the underperformance in 2014.

Allan asked if they were adding to all the stocks listed like Wynn or were they holding the current positions.

Ronald answered in the case of Amazon they held their positions because they have a 3.9% position which is sizeable enough. In the case of Wynn Resorts they sold out of Las Vegas Sands and put that into Wynn Resorts so that Wynn is now a top 10 holding for them. He said that when a stock underperforms this does not necessarily mean T. Rowe Price adds to it but Wynn was 20% down and they wanted to own more of it. Ronald explained page 4 of the handout shows how the stocks not owned by T. Rowe Price cost them on their performance. The underweighted stocks that proved to be the most costly were Apple and Microsoft. Microsoft is a name they have not owned in 6 or 7 years because it does not fit their definition of a growth company. In a market where people wanted a safe defensive yield Microsoft fit the bill and was up 27% for the year. They purchased Apple in 2006 at $70 and rode it to $700, it peaked in the portfolio at 11.5% and they began to sell it at the end of 2012. It went down from 11.5% of the portfolio to about 1% at the end of 2013, when the stock was only up by 7%. It was a strong performer in 2014 but T. Rowe Price had sold the last of the stock at the end of March 2014. The fact that Apple was 6.2% of the benchmark and the portfolio had an underweight or no weight cost them 2%. They continue to watch the company though they believe that at $175B it is difficult for a company to continue to grow at double digit rates. They believe the company will begin to grow again and have purchased the stock again, about 1% of the portfolio, in December of 2014 before the earnings, and the stock has been up since then. T. Rowe Price does not have the conviction in Apple that they did back when it was at 11% but they want to have some exposure, and not having any exposure for most of the year cost the portfolio 2%.

Ronald discussed the positioning of the portfolio by going over the information on page 23 of the booklet distributed prior to the meeting.

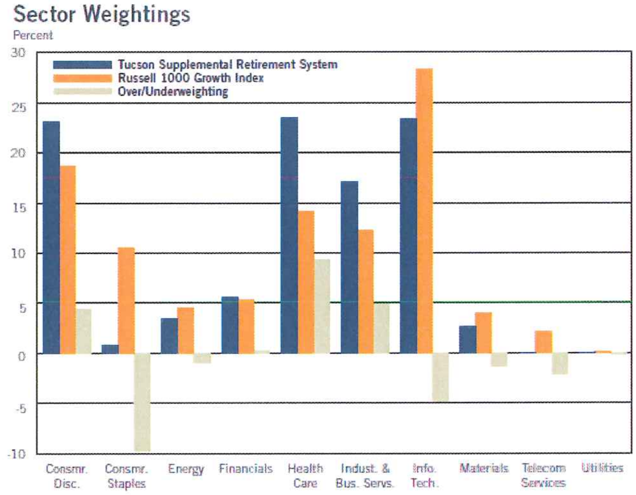
Portfolio Snapshot

As of 31 December 2014, Market Capitalizations Shown in U.S. Dollars

Top 10 Holdings

Company	% of Portfolio
Google	5.1%
Visa	4.3
Amazon.com	3.9
Priceline	3.6
Boeing	3.3
Danaher	3.2
McKesson	3.1
American Airlines	2.8
Alexion Pharmaceuticals	2.6
Gilead Sciences	2.4
Total	34.3%

Sector Weightings



Portfolio Characteristics

	Tucson Supplemental Retirement System	Russell 1000 Growth Index
Projected Earnings Growth Rate[1]	17.1%	12.0%
Price to Earnings (12 Months Forward)[1]	22.3X	18.6X
Investment Weighted Average Market Capitalization (Millions)	$81,401	$122,074
Number of Holdings	75	680
20 Largest Holdings	55.0%	33.3%
Portfolio Turnover (Last 12 Months)	48.9%	N/A
Active Share	78.7%	N/A

[1] Source: IBES

It shows the top 10 holdings. The top 10 names tend to be 30% to 40% of the portfolio and the top 20 holdings are 55% of the portfolio. Despite it being a 75 stock portfolio they want to give the Board maximum exposure to the names they have the highest conviction in. It is a highly diversified list including names in technology, consumer discretionary, industrial, and healthcare, etc.

Allan asked if relative to other large cap managers did they feel that they were more concentrated than other managers; and if so, does this drive their performance much of the time.

Ronald answered in large cap growth there are managers that have 20 or 30 stocks in their portfolios and there are those that have maybe 50 to 125 so in those two categories T. Rowe Price is broadly diversified. The top 10 and top 20 names give customers meaningful exposure to what they think are their best ideas and the other names are names they feel are emerging ideas and they want to make sure the customers have exposure. They want to make sure the client's experience is consistent; it is not about outperforming big in one year and then missing big in another. He said they were a diversified manager but on the strength of their fundamentals they want to make sure the client has leverage in the ideas in the portfolio. T. Rowe Price tries to give their clients earnings consistency. Anything can happen in a year because everything is so end point sensitive, but looking at rolling three year period shows the strategy consistently has returns above those of the benchmark. Today 95% of T. Rowe Price's clients have positive since inception performance, the only exception would be the clients who joined last year. They structure a portfolio based in the fact that they do not want any 1 or 2 different stocks to drive the performance, because in a portfolio with only 25 stocks when Amazon is down and in a 5% position it will hurt the whole portfolio. Sector exposure is high in consumer discretionary because that is where the gaming stocks, Amazon, Starbucks, Tesla, and Chipotle are. Healthcare is their highest sector because it contains biotech, about 11% of the 22% in the portfolio. Technology, which used to be about a third of the portfolio, is down because they sold Apple down to 1% from 11%, they also sold QUALCOMM and juniper networks. This is a growth portfolio so over time there will be exposure to growth sectors. They have very little exposure to consumer staples so in defensive markets that is a headwind for them. Turnover is about 50%, which implies holding stocks on average for 2 years. They are long term investors not traders and have owned Amazon stocks since 2006 and bought Google stock in 2004 on the IPO.

Ronald explained what type of market environment they would expect the strategy to outperform and underperform by discussing the portfolios long term return performance.

Total Return Performance

US Large-Cap Growth Equity Composite
Periods Ended 31 December 2014
Figures Shown in U.S. Dollars

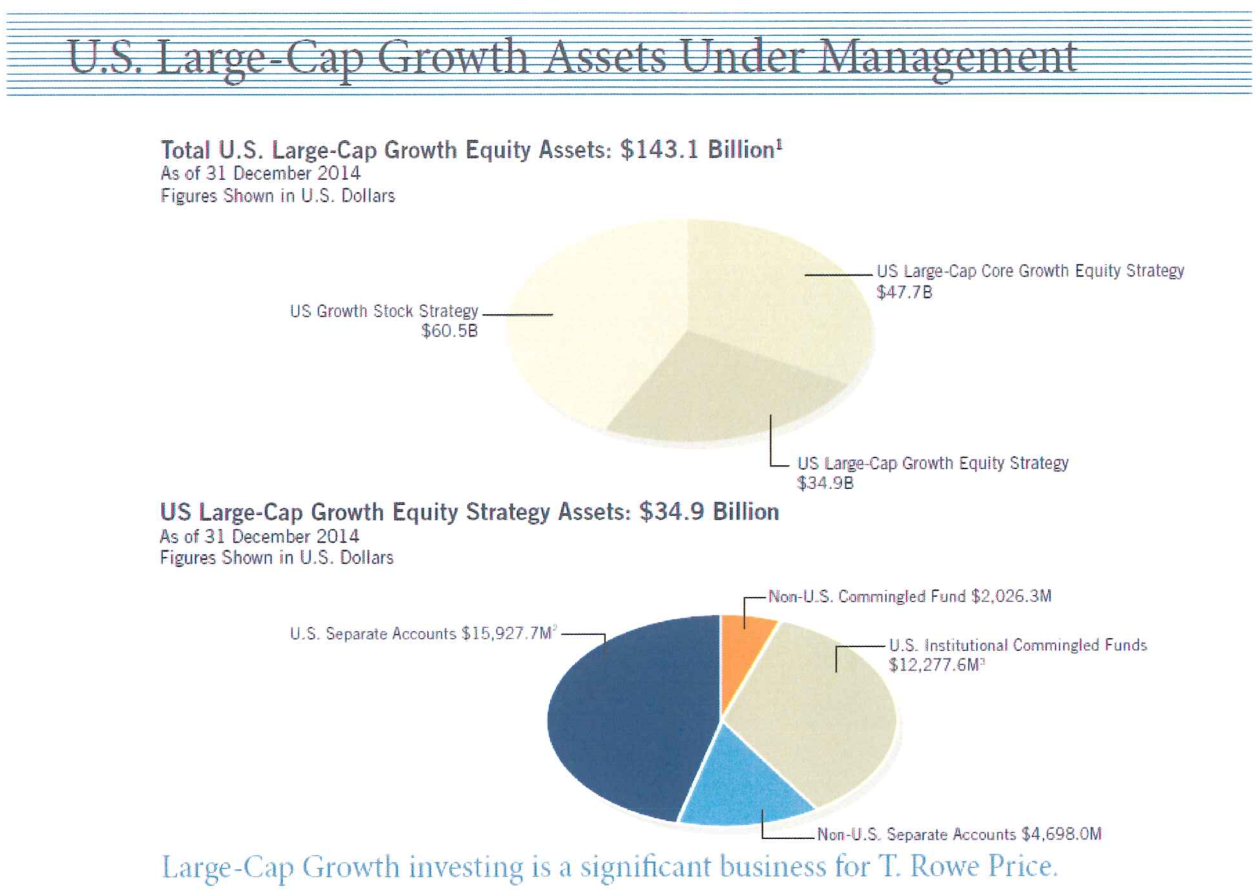
	One Year	Annualized Three Years	Five Years	Seven Years	Ten Years
US Large-Cap Growth Equity Composite (Gross of Fees)	9.26%	23.45%	16.77%	10.38%	9.73%
US Large-Cap Growth Equity Composite (Net of Fees)[1]	8.72	22.85	16.19	9.84	9.18
Russell 1000 Growth Index	13.05	20.26	15.81	8.41	8.49
Value Added (Gross of Fees)[2]	-3.79	3.19	0.96	1.97	1.24

Calendar Years

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
US Large-Cap Growth Equity Composite (Gross of Fees)	8.38%	6.88%	9.41%	-40.39%	54.28%	16.77%	-1.19%	18.51%	45.31%	9.26%
US Large-Cap Growth Equity Composite (Net of Fees)[1]	7.84	6.35	8.87	-40.70	53.54	16.19	-1.68	17.93	44.61	8.72
Russell 1000 Growth Index	5.26	9.07	11.81	-38.44	37.21	16.71	2.64	15.26	33.48	13.05
Value Added (Gross of Fees)[2]	3.12	-2.19	-2.40	-1.95	17.07	0.06	-3.83	3.25	11.83	-3.79

He said history would support that they tend to perform best in up markets, and used the calendar year numbers to illustrate this point. Beyond up markets they tend to perform best at inflection points, so the year prior to an up market. What gives them the confidence to go in at distressed times is that they have experts who only look at a narrow set of companies understanding the competitive dynamics and realizing that there is an opportunity for the companies to grow and become stronger. They felt that coming out of 2014 a lot of the companies in their top holdings have been overlooked. Over the next couple of years they might see something that will reflect a positive opportunity for the Board's portfolio. He said this page could be used to answer the Board's questions about active managers and their 10 year performance. In 2014 there were record amounts of money going to passive organizations and leaving active managers leaving people to wonder what they are paying for in an active manager. He believes there is a select group of active managers who can generate alpha over time and when viewing the 10 year numbers for T. Rowe Price it shows they rank in the top in the quintile of mangers over 3, 5, 7, 10 years, and since inception. In every period except for 1 year, net of fees, they have outperformed the benchmark. He believes there is something in the culture at T. Rowe Price that helps them to consistently outperform.

Ronald answered the Board's question about the current level of assets under management in the strategy and at what asset level will the strategy close to new investors, using the charts on page 8 of the booklet.



He explained the US Large Cap Equity Strategy is the youngest of the three large cap funds offered, is focused entirely on the institutional marketplace, is more concentrated, and has a higher reliance on the emerging growth companies so today it is roughly $37B with market appreciation. T. Rowe Price has always been an early closer relative to many of their peers in order to protect their clients. If they were to close the fund they would first close it to new business while continuing to give existing participants the opportunity to increase the fund. He believes they are at about 75% capacity today. There is not a set number for when the fund will be closed. There is an equity steering committee that looks at the funds every quarter. When T. Rowe Price feels that business is such that they cannot continue to generate the kind of return the normally do they will close the strategy. He explained that he did not believe that the strategy would be closed within the next couple of years because investors are not really looking for active managers at this point in time.

David Orlando clarified there was also a trend away from long only domestic equity managers to private equity hedge funds. The defined benefit plans are becoming more diversified and the money is coming from US equity.

Ronald explained T. Rowe Price's outlook for US equity markets in 2015. At the beginning of this year they believed a 10% type number would make sense, like last year. As of yesterdays close the strategy was up 220 basis points ahead of the benchmark. If they came into the year believing it would be 10% and they are already at 5%, it has been a surprisingly good first quarter. They think valuations continue to be reasonable at market trading of about 17 times, 10 year bonds are still trading at below 2% which means that equity will look favorable. The US economy and currency are strong which will provide a small headwind. The Fed announced that rates were not likely to go up before June so T. Rowe Price thinks they will go up on the back half of the year. They believe the market will be up 10% +/- 5, and that it will be a rocky year. They cannot anticipate or control any of the outside factors, what they can control is making sure their analysts are focused on the task at hand which is looking at the industries, knowing them better than anyone else, and helping the portfolio managers think through when stocks are under pressure to allow them to be willing and have the courage to buy more believing that the next 12 to 24 month period will be rewarding for the client.

D. **Administrative Discussions**

1. Status of request to add year to date income amounts to quarterly retiree statements, with quote from CGI for the cost of revising quarterly retiree statements **(This item was taken out of order.)**

Michael Hermanson stated there had been a request from the City of Tucson Retirees Association (CTRA) to redesign the quarterly statement to include YTD pay amounts. They had attempted to do this internally and it was not possible. The vendor CGI was asked to provide TSRS with a quote. They indicated it would cost $7K to reformat the software and reporting function to make it possible.

Jenefer Carlin asked why the company did not provide the information on the new statements that had been on the old statements.

Michael Hermanson answered that the company did not design the statement, Jesse Sanders had after discussing it with CTRA and attending at least 2 meetings of the full CTRA board. The original design is what TSRS staff has been sending to retirees and did not include the YTD payment amounts. The new payroll system does not generate this report which is why the quarterly statements had to be designed. He stated pay check stubs with YTD amounts were available in the ESS system, accessible to anyone with internet access and that he knew not all retirees had easy internet access.

Chairman Fleming asked if a retiree without internet could call the TSRS office and request the information.

Michael Hermanson answered yes we could provide the information or print it and send it to the retiree.

Silvia Amparano explained that retirees received the same amount every month and they could multiply the monthly amount by the number of months to get the YTD payment amount.

Chairman Fleming asked if the monthly amount ever changed.

Michael Hermanson answered there was the potential for an additional annual payment based on the post retirement benefit increase policy but the policy requires the plan be fully funded before that can happen so the income would not change.

Jenefer said that retirees could add up the monthly amounts in order to get the YTD amount but she thought that with computerization this information could just be provided to the retirees so they would not have to do it themselves.

Eric Kay asked how many calls the TSRS office received requesting this information.

Dawn Davis answered no calls had been received requesting this information.

John O'Hare stated that no one has contacted him, as the TSRS representative, to request this information either.

A motion to authorize payment not to exceed $7,000 to CGI for the purpose of adding YTD Pay Amounts to the retiree quarterly statements was made by John O'Hare, 2nd by Michael Coffey.

John asked if there was any annual maintenance costs if they approved this expense or would it just be a flat $7,000.

Michael Hermanson answered his understanding was that once it was completed there would not be any additional costs.

Michael Coffey clarified that the information was not readily available in the new system and that was why it did not appear on the statement.

Michael Hermanson explained the new system does not create what used to be sent out as a deposit advice.

Silvia explained it was a report they had created based on input from the retirees, and she did not know why the YTD total was added at that time. Staff does not have the time or skill set to amend this easily which is why a quote was requested from CGI.

Curry Hale clarified that it would not cost more than $7,000.

John asked who paid for the report when it was first designed.

Michael Hermanson answered it was created internally by the person in charge of converting the payroll system and it was done as a courtesy to TSRS so it was not charged to TSRS.

John asked if the person who created it could modify the report if it was not a priority.

Silvia answered that they could ask, but if the Board wanted it done right away it would be best to go with CGI.

Michael Coffey said he thought the YTD amount should be included as a courtesy to the retirees but if there was a possibility of having it done in house they should consider it.

Jenefer said she thought the deadline should be the end of the calendar year for tax purposes.

Chairman Fleming advised TSRS sends out a 1099R for tax purposes.

The motion passed by a vote of 3-2 (Curry Hale and Eric Kay dissenting, Kevin Larson absent, Chairman Fleming did not vote).

3. Update on Transition Manager

Allan Bentkowski said Callan was in the process of looking over 12 potential managers. They expected to hear something in the month of April and staff would choose the top 3 of those managers.

4. TSRS Portfolio composition, transactions and performance review for 02/28/15

Allan Bentkowski said the Total Fund asset balance is at $745M which is another all-time high for the plan. The Fund balance as of 1/31/15 was $719.5M and as of 3/25/15 it was $742.7M. All of the managers and asset classes are within their target ranges. They moved $1.5M out of T. Rowe Price, into the retiree fund to make payments, in February; they chose to take the money from T. Rowe Price because they have been doing so well. The money generally comes from accounts that are over allocated relative to their targets.

Calendar YTD returns – the Total Fund returned 2.70% vs. the Custom Plan Index of 2.44%. T. Rowe Price was at 6.11% net of fees vs. the Russell 100 at 5.04/%. Pyramis was at 4.33% vs. the Russell 2000 of 2.53%. Total Equities returned 3.47% vs. the Equity Composite at 3.57%. Information on Total Real Estate and Infrastructure was not available yet but the absolute returns were 2.48% and -2.60% for Total Real Estate and Infrastructure, respectively.

Fiscal YTD Performance – the Total Fund has had an up and down year but February made up for the declines in December and January. The Total Fund was up 4.05% vs. the Custom Plan Index at 4.46%. T. Rowe Price was at 11.63% net of fees vs. the Russell 1000 at 11.71%. Pyramis was at 8.66% vs. the Russell 2000 at 4.23%. He expressed concern over Aberdeen at -6.89% vs the MSCI All Country World Ex-US at -4.21%, and Causeway at -2.83% vs. MSCI EAFE at -3.33%. Total Equities returned 5.44% vs. the Equity Composite at 5.18%. Total Real Estate is at 6.51% vs. the NCREIF Index (through 12/31/14) at 6.61%. Total Infrastructure was down -5.47% vs. the CPI +4% (through 1/31/15) at 0.34%.

D. **Administrative Discussions**

1. Status of request to add year to date income amounts to quarterly retiree statements, with quote from CGI for the cost of revising quarterly retiree statements

This item was taken out of order, considered after item C2.

2. Consider Securities Litigation Recovery Presentation from Robbins Geller Rudman & Dowd, LLP

Michael Hermanson said that he and Allan Bentkowski had interviewed Stephanie Schroeder from the law firm of Robbins Geller Rudman & Dowd out of San Diego. The interview was meant to understand what this firm wanted to offer the Board because BNY Mellon currently covers securities litigation. What the firm offered was to double check the work done by BNY Mellon with no fee. He asked if the Board was interested in hearing a pitch from the firm or if they wanted staff to engage them without a presentation.

David Deibel asked if they were trying to establish something outside of their contractual obligations.

Michael Hermanson and Allan answered the firm was trying to establish a relationship with the TSRS board in hopes of representing them in future class action suits.

David explained if this firm was to take any action outside of their contractual obligations, for example pursuing a class action suit, they would have to be hired by the City Attorney's Office for that purpose after the City Council authorized the law suit.

Chairman Fleming asked for clarification on the nature of the relationship between this law firm and the Board/TSRS.

Michael Hermanson clarified there would probably be an engagement agreement that the City Attorney's Office would have to sign off on. They would then review positions from 3 to 5 years ago for any existing or prior litigation that the TSRS Board did not participate in through BNY Mellon.

David clarified that at this point the firm would only be reviewing records.

Allan answered this was correct and the firm only wanted to form a relationship with the Board/TSRS.

Michael Hermanson asked if it was the Board's pleasure to have them come and present.

The Board asked staff to proceed without a presentation.

3. Informational Discussion of IAPC Report

Michael Hermanson explained the Independent Audit Performance Commission (IAPC) was reviewing the Board's presentation of information to the Mayor and Council on Proposition 201. They were directed to look at the issue of whether or not the City would save money by using a defined compensation (DC) program in lieu of a defined benefits (DB) plan. The position of IAPC is that the City would save money this way though the Board had provided them with information that contradicts that point. IAPC is proceeding with issuing a report, staff has indicated that the report contains misleading information and inaccuracies, some of which they agreed to correct.

Silvia Amparano clarified the scope of the IAPC pension subcommittee was to review the actuary information that was presented to Mayor and Council in the summer of 2013. Two options were provided to Mayor and Council and that presentation was given by the pension education committee for information purposes in light of Proposition 201 possibly getting on the ballot. Those 2 proposals were what the actuary recommended as a 10 year closed amortization schedule that would cost the City about $24M annually at the beginning of the schedule to continue to fund the DB plan and start up a new DC plan, the second part of the scope was to look at alternatives to those 2 scenarios. Staff provided the subcommittee with the information and recommended some education on open vs. closed so they would understand why the actuary was recommending what she did. There were statements in the draft report that was provided by the IAPC that said staff was only looking at the worst case scenario and providing them with a cash heavy and front loaded scenario. The subcommittee wants to finalize the report and move on to a second phase where they will look at other alternatives. The Board has previously looked into other alternatives but that was not presented to Mayor and Council and as a result the IAPC is saying Mayor and Council were presented with a very limited view. The subcommittee is finalizing their report for the full IAPC meeting on April 1, 2015. Staff has gone on record that the report is misleading and inaccurate.

Eric Kay asked who was on the IAPC.

Silvia answered they were Mayor and Council appointees, one for each ward and the Mayor's office (7 appointees). Budget and Internal Audit administer it but it is run by the appointees and they can look at anything they want to. They request documentation on anything they can add value to and they create the subcommittees to do the more analytical work and coordinate with staff, then the subcommittee reports back to the full IAPC.

Michael Coffey asked for clarification on the misleading information in the draft report.

Michael Hermanson explained the report indicates that a DC plan is less expensive than a DB plan, but they do not understand the complexities of the funding of a DB plan.

Michael Coffey asked where that conclusion came from.

Silvia answered Michael Hermanson had provided them with a lot of information in the last year.

Michael Hermanson explained he had met with them and provided them with the information the board had seen and the IAPC has gone on several tangents regarding information that had been presented to Mayor and Council. Staff's information indicates there was only one presentation in which the information the Board saw in the summer of 2013 was summarized. This information resulted from the Board trying to learn what was possible with Proposition 201, what they could do about it, and what authorizations they would have to act on if Proposition 201 passed. They studied the actuarial impact as well as the best practice to fund it if Proposition 201 passed.

Silvia said it was partly because the subcommittee needs a better understanding of closed vs. open. They were upset when staff provided them with the actuarial information because they did not have access to the formulas the actuary used to calculate the numbers, which was proprietary information. While this was happening Council Member Kozachik asked that the subcommittee not include any retirees because he thought they might have a biased opinion since they are benefiting from a DB plan.

Michael Coffey asked what the Board needed to do, if anything.

Michael Hermanson answered they would wait to see the final report when it is issued and then decide if they wanted to respond.

Silvia said one of the IAPC members had asked if the City had done a comprehensive study of whether it makes sense to change to a DC instead of leaving the DB in place; the City had not and the Board has reviewed different options but did not do a comprehensive study.

Michael Hermanson said staff had reviewed a DC hybrid alternative plan that had both DC and DB components to see if they could build a less costly plan.

Silvia said part of the recommendation made by the IAPC might be that the City perform a comprehensive study before an initiative comes up again.

John O'Hare asked if the actuarial work requested by the subcommittee was paid for by TSRS.

Silvia answered the IAPC could not commit the City to additional costs if they do not agree to it, so it would depend on what they request.

Michael Hermanson explained IAPC had requested actuarial work be performed and that bill was paid by TSRS.

John asked if TSRS could get that money back.

Michael Hermanson said they would have to look into it.

4. Discuss Mortality Table adopted with Historical Experience Study – Impact on TSRS

Michael Hermanson explained that at the last TSRS board meeting Kevin Larson had asked what the impact was of the RP2020 table. He said the City is on the RP2000 table as was recommended by the actuarial historical experience study last year. The next experience study, which will happen in 3 to 4 years, will test the level of margin in the mortality assumption and update the table if necessary which would increase costs some.

5. Draft of 2014 Executive Summary of Major Board Activity

Michael Hermanson said this was included in the meeting materials for the Board's review. He did intend to publish it in terms of sending it to TSRS active and retired members to educate them on the Board's activities. He asked if the Board had any comments.

Silvia Amparano asked about the deadline for comments.

Michael Hermanson answered he would like to get them by April 10, 2015 so it could be sent out by the end of April.

Silvia asked when the quarterly statements would be sent to retirees.

Michael answered they would be sent on March 27, 2015, so the executive summary would go out as a separate mailing. The executive summary will be sent to active, retired, and deferred participants.

E. **Articles for Board Member Education / Discussion**

1. Case Studies Find Increased Costs When States Switched From Pensions (National Institute on Retirement Security – Feb. 10, 2105)
2. Look Before You Leap: West Virginia Reopens DB Plan within 15 Years of Closing; Commits to Improve Funding After DC Plan Benefits Prove Inadequate (National Institute on Retirement Security Feb. 2015)
3. Twenty Myths about Public-Sector Pension Plans (Center for State and Local Leadership at the Manhattan Institute, October 2013)

F. **Call to Audience** – None heard.

G. **Future Agenda Items**

1. April 30, 2015 meeting - Board Governance Policies and Fiduciary Training Refresher – Cassie Langford, Presentation on Securities Litigation Recovery Process

H. **Adjournment** – 10:55

Approved:

R Fleming 4/30/15 for Silvia A Navarro 4/30/15

Robert Fleming, Chairman of the Board — Date

Michael Hermanson, Plan Administrator — Date