TUCSON SUPPLEMENTAL RETIREMENT SYSTEM
BOARD OF TRUSTEES

Meeting Minutes from Friday, October 31, 2014
Arizona Inn, 2200 E. Elm Street
Tucson, Arizona

Members Present:	Silvia Amparano, Finance Director Curry Hale, Interim HR Director Karen Tenace, Elected Representative, **Acting Chair** Eric Kay, Elected Representative John O'Hare, Elected Retiree Representative Kevin Larson, City Manager Appointee
Staff Present:	Michael Hermanson, Pension Administrator Allan Bentkowski, Treasury Finance Manager Silvia Navarro, Treasury Administrator Veronica Natividad, Executive Assistant Kelly Gottschalk, Assistant City Manager
Guests Present:	Jenefer Carlin, Retiree Representative Gordon Weightman, Callan Paul Erlendson, Callan Leslie Thompson, GRS Cassie Langford, Yoder & Langford Scott McCarty, Town of Paradise Valley Darren Smith, JP Morgan Mia Dennis, JP Morgan Dick Oswald, JP Morgan Rick Fulford, PIMCO Sasha Talcott, PIMCO Mark Crumb, Retiree Jorge Hernandez, City of Tucson Employee
Absent/Excused:	Robert Fleming, Chairman Dave Deibel, Deputy City Attorney

1) Consent Agenda
   a. Approval of September 25, 2014 TSRS Board meeting minutes
   b. September 2014 TSRS Financials
   c. Retirement ratifications for the month of October, 2014

Motion to approve consent agenda made by acting Chair Tenace, 2nd by Kevin Larsen, motion approved 6-0 (Chairman Fleming absent).

2) Actuary Valuation Report for June 30, 2014 – Gabriel Roeder Smith & Assoc., - Leslie Thompson
   a. Actuary's presentation of June 30, 2014 TSRS valuation report
   b. Discussion of TSRS Funding Policy Draft – Cassie Langford
   c. Recommended contribution rates for FY16 (July 1, 2015 - June 30, 2016)
   d. Acceptance of 6/30/14 Valuation Report, Formal adoption of TSRS Funding Policy, Formal Recommendation of FY16 contribution rates
   e. TSRS Valuation Report Draft for the plan year ended June 30, 2014

Leslie Thompson presented the TSRS actuarial valuation report for the plan year ended June 30, 2014. Leslie began by referring to this year's valuation theme song as: "it was perfect timing" because the additional costs from upgrading the actuarial assumptions applied to this valuation were offset by the great actuarial experience for this year.

This is the 3rd year that TSRS has the Tier II members, and the first year of utilizing an investment return assumption of 7.25%. The market value return for the year was 19.08%, on the actuarial basis, it was 13.76%, given that our assumption was 7.25%, that's a pretty good return. On an actuarial basis, there was an investment gain of $33m. Normal costs for this year were: 11.92% for legacy, 13.24% for Tier I, and 9.82% for Tier II, resulting in an aggregate normal cost of 11.71%. As time goes forward, more of the Tier II members will replace a higher cost legacy group and the aggregate cost will continue to decline. The total cost of 32.23% vs. 32.22% from FY13, indicates a very stable cost (basically constant) for the plan. That tells us, that even when all the experience is factored in and assumptions changing, not a lot of change.

John O'Hare asked if the Tier 2 costs will be going up. Leslie answered that there's a possibility of it going up, depending on the demographics. John also mentioned that the local paper said there will be an increase of $3 to $4 million dollars for the coming year. Kelly Gottschalk responded that she had called the reporter who wrote that article and informed him that information was incorrect. Kelly stated that the reporter would be making the correction in the paper at some point.

Leslie went on to report that normal costs are trending down; and, if contribution rates remain constant, the unfunded liability for the plan will be paid off more quickly. Leslie commented, when I look at the history of the things this plan has accomplished, in 2012, the funding policy changed from 15 to 20 year amortization, changed member contributions to a more reasonable single digit rate, changed assumptions and actually reduced the actuarially required contribution, quite remarkable. Continuing, Leslie indicated the funded ratio moved up from 63.3% to 64.8%, and on a market value basis, the funded ratio improved to 72.67% from 67.6% in the prior year. The reason there is such a large difference is explained by the deferred actuarial gains the plan has right now, which will offset future actuarial losses. In addition, the difference between actuarial and market returns are smoothed over 5 years, which keeps the contribution rates from fluctuating. Right now, the plan has very nice band width between the 5 year geometric average and the arithmetic average returns on an actuarial basis at 3.7% versus the market value at 13.4%.

Mortality tables used in the TSRS valuation are more conservative than the plan is experiencing, but the newer mortality tables being discussed in the actuarial world will eventually shift to be generational-based. On page 15, the graphic shows how the composition of membership is changing; showing that Tier II is now at 23%, up from 18% in the prior year and 10% in 2012. Tier II members with lower cost benefits are replacing the legacy Tiers, driving the pension costs down. Reviewing the history of deferred gains on page 19, Leslie indicated that our deferred gains are at $79.7m at the year ended June 30, 2014.

In summary, page 20 indicates the actuary's recommended contribution rates for FY16 are 27.5% for the Employer rate, 5.00% for legacy members, 6.75% for Tier I and 5.25% for Tier II (actuary's recommendations do not considering the funding policy recommendations affected by the Board's funding policy, which include rounding up rates).

Item 2b - Discussion of Funding Policy – Cassie Langford

Starting with what was done last year for the TSRS funding policy, Cassie indicated that she had put the IRS requires a complete funding policy with a one page document that shows all of the actuarial assumptions and funding considerations indicated on one document, plus we want this for the GASB 67 disclosures. For the Board's consideration today, we start off by explaining the reason for the policy, beginning with the difference between the actuary's recommendations and the "charged" contribution rates. We have an issue with the rounding policy, intended to stabilize the overall contribution rates, and also to pay down the unfunded liabilities for the plan. The additive effect for this part of the policy is not clearly explained and should be fleshed out a little more.

Mike Hermanson indicated that funding policies intended to be additive become more challenging to explain because traditionally, we have wrestled with trying to get the rates to go down, but now the effort is focused on maintaining current rates at a time when the actuarial recommendations show rates that are decreasing or remaining flat. Cassie asked the board if they had any thoughts about how to do this, could we simply add target % amount to the round-up approach, or specify that the City would also pay the administrative expenses as an additional cost? Kelly Gottschalk indicated that a target amount specifying administrative costs be included, might more difficult to sell than simply stating that we are adding a specific percentage amount, such as adding .50% to the rate. Kevin Larsen agreed with the concept of just adding a % amount, but suggested it might be better to state there would be a maximum annual dollar amount for Employer funding; and work within that limit, the budgeting process will not be affected, but could provide a higher funding level. The Board acknowledged that recommending funding rates that use only the actuarial recommended rate will not get us funded to 100%, but our current funding policy language will not maintain the rate above the actuary's recommendation. Given this discussion, **Kevin Larson moved to modify the Board's funding policy, so that employee rates would not decrease until the plan is only paying normal costs and the unfunded liability has been paid off; 2nd by Eric Kay, motion passed 6-0** (Chairman Fleming absent).

Cassie Langford suggested the Board think about the funding policy in two different pieces: first there are the recommended rates for the Employer contribution, then there are the employee contribution rates. What type of contribution does the Board want to certify to the City for its contribution rate, then there is the structure that impacts how the member contribution rates are set. So, its two separate pieces that go into setting the member contribution rates. What's more workable, a flat dollar floor, or a % of payroll "add-on"? Admin expenses tend not to grow as fast, than assumption changes, so if we add a % to the rate, and it's growing, that would give us more of a cushion, because the expenses won't grow as fast, Leslie preferred anything that keeps things stable from the overall budget and doesn't call a strain on the rest of the City budget. So, it seems more workable to simply add it to the rate, expressed as a percentage of payroll.

Observing that our current funding policy lacks specific language that indicates what conditions are appropriate for reducing employer contribution rates and employee contribution rates; and to keep employee rates moving in tandem for the same reason, so that the rounded Tier rates would either both change or would result in no change, if only one Tier rate was changed. It is preferable to provide policy language that moves both rates for the same reason. In concluding the Board's discussion on how to revise the funding policy language; and, since the revised policy will affect the Board's contribution rate recommendation for FY16, the Board requested 3 projections from the Actuary, all showing an Employer contribution rate at 27.5%; then, applying our current round up policy as is, plus one more showing what an additional % added-on would affect the projected rates and the plan's projected funding ratio.

Motion to accept Actuary Valuation Report made by Kevin Larson, 2nd by Eric Kay, motion passed 6-0 (Chairman Fleming absent).

In closing, Leslie informed the Board that two retirees from the City of Detroit had filed a lawsuit with GRS, and another retiree from Wayne County were alleging that the Actuary misled the Board, providing contribution rates that were underfunding the plan.

3) PIMCO – Rick Fulford, Sasha Talcott
   a. Discussion of Bill Gross departure from PIMCO
   b. Annual Fund Manager Review of Custom Fixed Income Fund
   c. Annual Fund Manager Review of Stocks Plus Fund
   d. Current Economic Overview and Forecast

Questions for PIMCO:

Q1. Describe PIMCO's new leadership structure at PIMCO following Bill Gross's departure.

As part of our responsibilities to our clients, employees and owner, PIMCO had been developing a succession plan for some time to ensure that the firm is well-prepared to manage a seamless leadership transition in its Portfolio Management team. The CIO transition announcements of September 26, 2014 reflect the results of an extensive and thorough portfolio management succession process.

PIMCO elected Daniel Ivascyn to serve as Group CIO, succeeding Bill Gross. In addition, we appointed Andrew Balls, CIO Global; Mark Kiesel, CIO Global Credit; Virginie Maisonneuve, CIO Equities; Scott Mather, CIO U.S. Core Strategies; and Mihir Worah, CIO Real Return and Asset Allocation and, more recently, Marc Seidner, CIO Non-Traditional Strategies. Douglas Hodge, PIMCO's Chief Executive Officer, and Jay Jacobs, President, continues to serve as the firm's senior executive leadership team, spearheading PIMCO's business strategy, client service and the firm's operations.

These appointments are a continuation of the structure that PIMCO established earlier this year, and they reflect our long-held belief that the best approach for PIMCO's clients and our firm is to evolve our investment leadership structure to a team of seasoned, highly skilled investors overseeing all areas of PIMCO's investment activities.

Importantly, our investment process has not changed. Because we recognize that no single individual can be an expert in every area of the investment universe, PIMCO's process has always relied on the efforts of teams of experienced portfolio managers to deliver value for our clients. The Investment Committee has been and will continue to be the key decision-making body when it comes to top-down investment strategies, while our scores of sector and regional specialists around the world will continue to be a primary source of bottom-up investment ideas for each and every PIMCO portfolio.

Q2. Besides Mohamed El-Erian and Bill Gross, have any other notable investors departed PIMCO's investment group during 2014? Should we expect to hear of any other people leaving PIMCO?

No other notable investors have departed since Bill Gross' departure. We have a very deep bench of portfolio management talent and have continued to promote and add senior PM resources. Notably, we recently announced that Marc Seidner will rejoin PIMCO as CIO, Non-Traditional Strategies and head of portfolio management in New York. We also announced the return of Nobel Laureate Economist Michael Spence and Jeremie Banet, an executive vice president on our real return team.

Adding additional context, we do expect some amount of turnover as a normal part of our business. PIMCO's historical attrition rate has averaged between 5% and 10% of the employee base each of the past 5 years.

One senior hire who may consider leaving PIMCO is Paul McCulley, who rejoined us in May at the express request of Bill Gross. Paul is working part-time and not managing any portfolios. As best we are aware, Paul has not made any final decisions and is still deliberating.

There is always the possibility that additional departures could occur, but we are not aware of any decisions at the present time.

Q3. How much of the investment leadership's time has been diverted from investment activities to deal with client inquiries and special meeting requests during the post-Gross period?

In the weeks since Bill Gross' departure, we have seen an increase in client interest in meeting with senior members of the portfolio management team. We are meeting these requests and working closely with clients to provide transparency and additional detail on the management of the firm. That said, we want to emphasize that, during this time, we are fully engaged in the markets and have not missed a step in actively managing portfolios on behalf of clients. Some key points:

-Our Investment Committee meets for two hours daily to review key market events and assess and adjust

positioning. Members typically clear their schedules during this time, which includes not scheduling client meetings.
- Most of the increase in client meetings has been handled by a small number of senior portfolio managers. Behind each of them lies a team of 260 portfolio managers that is fully engaged in client portfolios, trading in the market every day, and fully empowered to execute on opportunities.
- Performance in the two portfolios PIMCO manages on behalf of TSRS has been strong this year.
  - StocksPLUS: +12.78% return before fees, outperforming benchmark by 179 bps
  - Diversified income: +6.79% return before fees, outperforming the benchmark by 30 bps

Q4. How have the changes in the investment leadership team and outflows of investor capital affected the investment decision-making processes relative to TSRS's two strategies (Stocks Plus, and the custom fixed-income account) with PIMCO?

Our time-tested investment process will continue to be followed under the new leadership. PIMCO's investment process starts with an annual Secular Forum at which PIMCO investment professionals from around the globe gather with industry experts for a three-day discussion about the future of the global economy and financial markets. The goal of this Forum is to look beyond the current business cycle and determine how secular forces will play out over the next three to five years. Quarterly, PIMCO holds Economic Forums to evaluate growth and inflation over the next six to 12 months.

Following the Secular and Economic Forums, the PIMCO Investment Committee, comprised of senior portfolio managers as well as PIMCO's Chief Economist and headed by PIMCO's Group Chief Investment Officer and CIOs, develops key portfolio strategies. They consider both the "top-down" conclusions emanating from the Forum, as well as the "bottom-up" market intelligence provided by the teams of sector specialist portfolio managers. Through an interactive series of meetings, the Investment Committee defines a set of consistent strategies that are then implemented across the account base. This process is institutionalized at PIMCO and through the day-to-day activities of all the members of the portfolio management team globally.

Although Bill Gross was the named lead PM on a number of funds, including StocksPLUS, and an important voice in the Investment Committee, the portfolio management process has always been a team process. As we have evolved and the markets have become larger and more complex, we have increasingly recognized the critical value of this team process and diverse inputs from talented team members with different perspectives and complementary areas of expertise. The Investment Committee has many other strong voices, who have contributed vocally in the past and will continue to contribute in the future.

We also believe that the appointment of six asset class CIOs – a process that began earlier in 2014, with the appointment of many of these individuals as Deputy CIO – has in many ways enhanced the investment process, which should have positive spillover to both of your portfolios. Anecdotal feedback from the portfolio management team is that the new structure allows for additional input from key bottom-up perspectives to complement PIMCO's rigorous macro-economic analysis. This should ultimately result in a better ability to take advantage of market opportunities on behalf of clients.

Q5. What have been the net asset flows, current assets under management, and changes in number of client relationships for:

a. ***The entire firm;***
b. ***Stocks Plus; and***
c. ***The custom fixed-income strategy.***

As of 9/30/14, PIMCO's third-party assets under management was $1.468 billion. This compares to $1.535 billion as of 12/31/2013.

To put that in context, the bond market as a whole has experienced outflows over the last couple of years, sparked by Fed Chairman Ben Bernanke's "taper" comment in May 2013, which caused a subsequent rapid rise in interest rates. Turning to PIMCO, the change in AUM was driven by several factors, including client investment preferences, flows, market movements, as well as currency fluctuations.

Although PIMCO has experienced some client outflows, the majority of clients are sticking with us. One way to see this is to look at the change as a percent of our total AUM – around 4 percent. We welcome the opportunity to further engage with the board or with Callan, answer questions, and host any members for due diligence in Newport Beach. The majority of clients who have had the opportunity to visit us emerge as more confident in our leadership evolution, our organization and our ability to outperform going forward.

Separate Accounts Gained and Lost: 12/31/13-9/30/14

	Accounts Gained	Accounts Lost
Diversified Income	3	4
StocksPLUS	2	3

Q6. Is PIMCO willing to negotiate new investment management fees with TSRS?

PIMCO is happy to discuss alternative management fee arrangements with TSRS. As we mentioned during the meeting, such an arrangement would likely take the form of a performance fee, which is a signal in our confidence in our ability to outperform over time.

4) JP Morgan – Darren Smith, Mia Dennis, Dick Oswald

a. Annual Fund Manager Review of Strategic Property Fund
b. Annual Fund Manager Review of US Income & Growth Fund
c. Introduction to Non-US Fixed Income Investments

Questions for JP Morgan:

Q1. Bring us up to date on the legal and regulatory situations at JP Morgan. Do you expect these situations to have any impact on the investment management division?

Regulatory

In March 2013, the SEC conducted a routine examination of JPMIM along with other investment advisers within JPMAM. JPMIM subsequently received the SEC's deficiency letter and responded to such letter on July 25, 2013. The examination evaluated compliance with certain provisions of the federal securities laws with the primary focus on the use, review and validation of "Models". We do not believe that the findings or the Firm's actions in response to the suggestions and recommendations in the SEC's letter will have a material impact on our ability to conduct our investment management business.

In 2013, the SEC also conducted an exam of JPMIM and affiliated advisers related to securities lending practices as well as a separate exam related to the distribution and servicing of mutual fund shares through intermediaries. As of June 2014, the securities lending examination is closed. The distribution exam is ongoing.

Litigation

JPMorgan Chase & Co. and/or its subsidiaries (collectively, the "Firm") are defendants or putative defendants in numerous legal proceedings, including private civil litigations and regulatory/government investigations. The litigations range from individual actions involving a single plaintiff to class action lawsuits with potentially millions of class members. Investigations involve both formal and informal proceedings, by both governmental agencies and self-regulatory organizations. These legal proceedings are at varying stages of adjudication, arbitration or investigation, and involve each of the Firm's lines of business and geographies and a wide variety of claims (including common law tort and contract claims and statutory antitrust, securities and consumer protection claims), some of which present novel legal theories. Based on current knowledge, the Firm believes it has asserted meritorious defenses to the claims asserted against it in its currently outstanding legal proceedings, intends to defend itself vigorously in all such matters, and does not believe that any pending legal proceeding would have a material effect on the Firm's performance of the services provided. For further discussion, please refer to JPMorgan Chase & Co.'s most recent Annual Report on Form 10-K and Quarterly Reports on Form 10-Q filed with the U.S. Securities and Exchange Commission.

Q2. The real assets group at JP Morgan has undergone a re-shaping over the last couple of years. Describe the nature and reasons for any organizational changes.

Firm Level

In September 2013, Doug Wurth was appointed to the newly created role of CEO of Alternatives for Asset Management. J.P. Morgan Alternative Investments is a global alternative investments franchise encompassing five distinct investment engines: JPM-GRA, Private Equity Group, J.P. Morgan Alternative Asset Management Hedge Fund Solutions, and Highbridge, Gávea. JPMAM has been a leader in managing alternative investments through its diversified investment engines since 1970 when we launched our first real estate equity fund. Led by CEO of Alternative Investments, Doug Wurth, the business leverages the collective talent, access, and relationships across the firm. Mr. Wurth has an extensive global background in global capital markets, global client relationships, and a deep understanding of alternatives through his previous roles as CEO of the International Private Bank and head of the Private Bank's Alternative Investment Group. Alternative Investments is further supported by the Alternative Investments Strategies ("AIS") team, who works across asset classes to effectively address each of our clients' unique and growing needs across alternative investing.

Platform Level

A testament to the success of JPM-GRA's business is the stability of our senior management, who has extensive tenure with the firm, and has worked together in excess of ten years. The senior leadership has a history of developing professional talent and promoting from within. Joe Azelby, an employee of the firm since 1987, has led JPM-GRA for over 14 years. The heads of our respective areas (CIO, Asset Management, Research, Portfolio Management, Finance, Appraisal, Development & Engineering, Legal) have similar tenures. Kevin Faxon, Head of Real Estate Americas, has been an employee of JPM-GRA since 1988.

We would like to make reference to a few changes in JPM-GRA personnel. Over the last five years, three senior managers have retired and been replaced internally with highly qualified candidates who were identified during our ongoing succession planning reviews.

The senior management retirees include the following:

1. Justin Murphy – Portfolio Manager for JPMCB Special Situation Property Fund ("SSPF") - Retired June 2012

Justin Murphy was replaced as the portfolio manager for SSPF by Douglas Schwartz, managing director in 2012. Previously, Doug was head of real estate acquisitions for the West Coast for JPM-GRA and brings 19 years of real estate acquisitions, asset management, development management and research experience to the role.

2. James Walsh – Head of Asset Management - Retired April 2011

James Wash was replaced as Head of Asset Management by Mark Bonapace, managing director. In anticipation of Jim's departure at the end of 2012, Jim transitioned his responsibilities to Mark Bonapace, former head of office/industrial asset management in the U.S. East region. Mark brings 21 years of experience at the Firm and deep expertise in all aspects of asset management in all property sectors. Jim and Mark have worked very closely together for over 15 years and our deliberate pace of transition into 2012 was to ensure a seamless hand off.

3. Anne Pfeiffer – Senior Portfolio Manager for JPMCB Strategic Property Fund ("SPF" or "the Fund") – Retired October 2013

Anne Pfeiffer retired after 34 years with the Firm. She was succeeded by Co-Portfolio Managers Kim Adams and Ann Cole. Prior to joining SPF Portfolio Management, Kim was the office/industrial asset management sector head for the Central Region and previously served as a senior asset manager in our retail group, as well as in the East/South region and an acquisitions officer in the Midwest Region. Since 1989, Ann had held various positions in our Real Estate Asset Management team including acquisitions officer and office/industrial sector head of the East and West Regions. She was also responsible for overseeing the development of one of SPF's key assets, 2000 Avenue of the Stars in Los Angeles. Most recently, Ann was a client portfolio manager in the Client Relations and Strategy team.

On the product side, JPM-GRA has managed open-end real estate commingled funds since 1970 and real estate separate accounts since 1974. We are committed to identifying and implementing strategic enhancements to our organization, client service and investment processes. We continually seek to enhance the range of products that we offer to our clients. This is driven by our own initiative and by market trends and demand. Below are some of our real estate strategies we have launched within our group over the past five years.

- A Greater China real estate strategy and a European opportunistic real estate strategy
- A strategy that invests in real estate development projects in India
- Global and Non-U.S. REIT strategies
- A U.S. defined contribution real estate fund of funds that accesses private and public markets
- A U.S. opportunistic real estate strategy that seeks to take advantage of the credit crisis, the economic slowdown and market dislocation

We have a long-standing U.S. separate account business. However, we are careful and selective about any new business that we take on in this arena. We do not seek to amass assets for the sake of "growth" and we would limit the acceptance of new accounts within a product if we felt the value added to our clients would be compromised or diluted. As assets under management grow, appropriate resources will be added to ensure that performance results, portfolio administration, and client servicing is not compromised. As evidence to our commitment in providing excellent services to our clients, we have added significant resources to our professional staff over the last five years. Despite the greatest economic downturn since the Great Depression, we have grown our U.S. real estate platform from 176 professionals as of December 31, 2006 to 225 as of September 30, 2014.

Q3. The Strategic Property Fund has had a fairly large contribution queue of investors wanting to deposit money in the Fund. What is the current status of the queue in terms of dollars and the amount of time it will take to invest that capital?

Contribution queue as of September 30, 2014, for JPMCB Strategic Property Fund is $1,751.1mm (7.4% of NAV) and current expectation for calling new capital is approximately 12 to 15 months. Please note this is an estimate and subject to change.

Q4. What concerns should existing investors have given the above average returns and investor in-flows experienced by the Strategic Property Fund since 2010?

There are no concerns warranted for the above average returns and investor in-flows since 2010. Core returns are moderating and the forward looking 12 month return will be in the range of 8% to 10%. JPMCB SPF has been disciplined in investing capital. As a percent of the Fund's net asset value, our new acquisition flows are very reasonable for a core fund of its size. At the same time, we have continued to prune the portfolio. The transactions we've completed position SPF well for the long term; owning the top tier assets in markets which have proven to outperform through cycles and disposing of assets that no longer meet the profile of the fund. Additionally, the continued success of attracting investor capital is a testament to our investors' confidence in the long term strategy of the Fund.

Q5. The Income and Growth Fund has posted relatively disappointing results over the last few years. What is being done to improve investment outcomes for investors in that fund?

Strategy

The J.P. Morgan U.S. Income and Growth Fund is an open-end, core-plus strategy focused on producing high income returns with the potential for capital appreciation. The portfolio is anchored by low-risk, high-quality, competitively positioned real estate investments. The Fund features well-leased, stabilized core assets; there is no value-add component or development activity. We acquire assets within the four primary property types of office, retail, apartment and industrial, and avoid the more volatile and/or specialized classes such as hotels, assisted living and self storage. Additionally, the focus is on the major U.S. markets that offer economic breadth and deep liquidity. Up to 15% of the Fund's Net Asset Value may be invested in mezzanine loans. The Fund utilizes moderate amounts of leverage to enhance portfolio returns. The Fund's goal is to generate an income and total return premium relative to traditional core funds, while investing exclusively in stabilized core assets. Our approach to debt is very disciplined. The Fund has a portfolio leverage guideline of 50%. Transactions are financed at the asset level with third-party, non-recourse mortgage loans. Loans are not cross-collateralized or cross-defaulted between investments. Additionally, debt terms are consistent with projected investment hold periods. Fully 90% of the portfolio's loans are longer-term, fixed rate mortgages. The Fund has an unsecured line of credit that is used solely for cash management purposes.

Mezzanine Investing

Mezzanine loans have provided an attractive investment option in recent years and has been an active part of our strategy. Mezzanine loans have allowed us to invest in quality, core assets within competitively priced markets at a relatively low basis and high income yield. As of Sept. 30, 2014, mezzanine loans comprised 8.3% of the Fund. Since 2012, we have provided six mezzanine loans and one B-note loan, and disposed of five mezzanine loans (via one sale and four full pay offs). With income as a central tenet to the Fund's strategy, we will continue to pursue mezzanine investments in 2014 as long as spreads, which have been edging down over the past year, remain appealing.

Portfolio Leverage

The Fund has taken deliberate action in active balance sheet management over the past few years to improve the position of the portfolio. We have taken advantage of the low interest rate environment by financing and re-financing at accretive rates to the portfolio. Since 2011, we have reduced the weighted average cost of debt from 5.3% to 4.2% by closing $858 million in loans (73% of outstanding debt) with a weighted average coupon of 3.8%, and retiring $722mm in debt through refinancing and sales, which represented a weighted average coupon of 5.3%. Further, we increased the weighted average time to maturity from approximately 4 years to nearly 6 years, dramatically increased the leverage exposure to whole loans, and improved the debt service coverage ratio from a solid 1.8x to an exceptional 2.6x. Portfolio leverage is currently 38%.

Note: Loan amounts above are at I&G share.

Performance

The Fund pursues a broadly diversified absolute-return strategy targeting an 8%-10% total annualized IRR (including a current income return of 5%-7% per annum and 2%-3% from capital appreciation) net of management fees and expenses, if applicable, and the effect of taxes payable by certain of the Fund's Entities.

The manager seeks to achieve the stated objectives. There can be no guarantee the objectives will be met. The IRR shown above is calculated based upon internal JPMIM data. There can be no guarantee the IRR will be achieved.

The Fund's historical performance (gross of fees) is provided below:

	Income	Appreciation	Total
YTD	4.4%	2.4%	6.9%
1 year	6.0%	4.0%	10.2%
3 year	6.1%	8.5%	14.9%
5 years	7.1%	7.7%	15.2%
10 years	7.3%	-2.2%	5.0%
Since Inception	7.4%	-0.4%	7.0%

Income and appreciation may not sum to Total Return due to rounding and/or compounding.

After several years of very strong appreciation coming off the downturn, as predicted, valuation gains are moderating as core real estate returns normalize.

Note that sector attribution is not yet available for 3Q14 data. All sectors contributed to appreciation over the trailing year ending 2Q14, with the industrial sector leading the pack as leasing momentum resulted in occupancy gains and increased rental rates. This was followed by the apartment, retail and office sectors, respectively.

The Fund's income yields remain high and are reinforced by strong operating fundamentals. The overall weighted occupancy is 96.5%, with all sectors reporting occupancy levels in excess of 95%. Lease expirations are intentionally staggered to maintain cash flows; the average remaining lease term is nearly five years. This is a high quality, well diversified portfolio with no single asset, sector, tenant, city or industry having an outsized concentration, thereby reducing event risk within the Fund. Together, these characteristics support strong and durable income streams.

Q6. Does JP Morgan's Income and Growth fund have either a contribution or a withdrawal queue? If so, explain how those investors' requests are being met without disadvantaging the interests of remaining investors.

Contribution Queue

As of September 30, 2014, the Fund's contribution queue is $411 million. At this time, we estimate that it will be approximately 12-15 months from commitment date to fully draw down a new commitment. This is our best estimate based on current information, and is subject to change based on variables including the pace of deal activity, pace and volume of new commitments and other cash needs of the portfolio.

Commitments are typically taken on a quarterly basis. Contributions are drawn in order of commitment tranche. In the case of a partial capital call, investors are drawn in pro rata with their tranche. We believe this creates a fair process for investors based on commitment timing, and not based on size or other factors.

It is worth noting that the portfolio manager's compensation is tied to performance, not to the size and of the fund. This structure aligns interests and prevents disadvantaging existing investors from a situation of expending capital towards dilutive investments.

Recall also that the I&G Fund sits on JPMAM-GRA's Real Estate Americas platform that manages over $50 billion in assets under management. It is this same team of acquisition officers, asset managers, and financial controllers that support I&G. This team has the experience and scale to manage increasing commitments to I&G.

Redemption Policy

The Fund will review repurchase requests on a quarterly basis (with 60 days written notice from the investor) on individual subscriptions. Repurchases will occur on quarterly Repurchase Dates (15 business days following each of 3/31, 6/30, 9/30 and 12/31) at current NAV, and are subject to the availability of Available Proceeds and other restrictions. It is the intention of the General Partner to make repurchases from sources other than available cash. In-kind distributions are not permitted.

We have paid out 100% of repurchase requests (also referred to as redemption requests) since the inception of the Fund, except for four periods during the financial crisis of 2008-09 due to the lack of visibility in the market. In three of those periods, no repurchases were satisfied, and in one period, partial repurchases (32%) were made. The Fund does not have a redemption queue and in the periods where redemptions are not fully met, investors need to resubmit a repurchase request during the next repurchase window. It is important to note that, throughout the financial crisis, the Fund held a strong balance sheet and income distributions continued to be paid to the clients in every quarter. As testament to the health of the underlying investments, the Fund continued to make income distributions of nearly 5% in both 2008 and 2009, while many competitor funds stopped making income distributions altogether during this time. The decision to limit the repurchases during this period was made in prudence and as a fiduciary to the Fund's existing investor base, given the uncertainty in the market. During the single period when the partial repurchase was paid, payments were made on a pro rata basis among the requesting investors. Please note that repurchase requests are not automatically carried over to the next period. In the situation of the partial payment, investors who still wanted to redeem out of the Fund had to submit a repurchase request in the subsequent repurchase window period.

Please refer to the following table for the historical repurchase requests and payments made by the Fund.

Repurchase Date	Repurchase Requests Made (mm)	Repurchase Requests Funded (mm)	Requests as % of Fund NAV	% Funded
3/31/2005	$12.5	$12.5	2.3%	100%
9/30/2005	$3.2	$3.2	0.5%	100%
3/31/2006	$16.4	$16.4	2.0%	100%
9/30/2006	$5.9	$5.9	0.5%	100%
3/31/2007	$5.6	$5.6	0.4%	100%
9/30/2007	$92.6	$92.6	5.6%	100%
3/31/2008	$201.8	$0.0	12.6%	0%
9/30/2008	$222.7	$71.2	14.4%	32%
3/31/2009	$159.4	$0.0	16.9%	0%
9/30/2009	$125.8	$0.0	18.5%	0%
3/31/2010	$45.1	$45.1	7.3%	100%
9/30/2010	$8.9	$8.9	1.4%	100%
3/31/2011	$4.0	$4.0	0.5%	100%
9/30/2011	$9.7	$9.7	0.9%	100%
3/31/2012	$23.5	$23.5	2.2%	100%
9/30/2012	$80.4	$80.4	6.4%	100%
12/31/2012	$32.2	$32.2	2.5%	100%
3/31/2013	$8.3	$8.3	0.6%	100%
6/30/2013	$20.3	$20.3	1.3%	100%
9/30/2013	$15.9	$15.9	1.0%	100%
12/31/2014	$52.8	$52.8	3.4%	100%

3/31/2014	$17.4	$17.4	1.0%	100%
6/30/2014	$11.3	$11.3	0.6%	100%
9/30/2014	$16.8	$16.8	0.9%	100%

Disclaimer:

FOR QUALIFIED INVESTORS ONLY. This information has been prepared for investors who qualify to invest in the types of investments described herein. Generally they would include investors who are "Qualified Purchasers" as defined in the Investment Company Act of 1940, as amended, and "Accredited Investors" as defined in the Securities Act of 1933, as amended. This information may not be reproduced or used as sales literature with members of the general public. For further information regarding risk factors and potential conflicts of interest, please refer to the "Risks" section in the Private Placement Memorandum.

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Real estate investing may be subject to a higher degree of market risk because of concentration in a specific industry, sector or geographical sector. Real estate investing may be subject to risks including, but not limited to, declines in the value of real estate, risks related to general and economic conditions, changes in the value of the underlying property owned by the trust and defaults by borrower.

Leverage. Certain of the Fund's investments may be leveraged, which may adversely affect income earned by the Fund or may result in a loss of principal. The use of leverage creates an opportunity for increased net income, but at the same time involves a high degree of financial risk and may increase the exposure of the Fund or its investments to factors such as rising interest rates, downturns in the economy or deterioration in the condition of the investment collateral. The Fund may be unable to secure attractive financing as market fluctuations may significantly decrease the availability and increase the cost of leverage. Principal and interest payments on any leverage will be payable regardless of whether the Fund has sufficient cash available. Senior lenders would be entitled to a preferred cash flow prior to the Fund's entitlement to payment on its Investment.

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5) Investment Activity / Status Report

a. TSRS portfolio composition, transactions and individual investments, securities lending summary and performance by manager for the quarter ending 9/30/14

Allan Bentkowski indicated the manager allocations and investment results for the month of September, 2014. The total portfolio balance at 9/30/14 was just over $720M, compared to the month end balance for August at $735.7M; an all-time high value. He explained that the financial markets were volatile and down thus far in October. However, as of 10/30/14, we moved back up to an asset value of $722.1M. During the month we moved $2M out of Blackrock Value Large Cap Value Fund US Equities into TSRS Fund 072 to meet retiree payouts and also that TSRS had received another $1.2M distribution from LaSalle Income and Growth Fund.

b. **Callan Associates – Paul Erlendson, Gordon Weightman –** Executive Summary of TSRS Performance for 9/30/2014

Paul Erlendson indicated the Executive Summary of TSRS Performance for period of 9/30/14 is in your materials and will be reviewed briefly in a moment. Paul and Gordie will be back in November with a more detailed report next month.

In addition, as a result of the Board's Asset Allocation study, the Board decided to implement two investment policy changes: (1) adding a new non-US equity small capitalization mandate at approximately 15-20% of the overall non-US equity assets, and (2) increase the emerging market equity exposure, which several of today's presenters have talked about today. We have provided a total of 5 managers to consider today and we'll get to that after the performance report for 9/30/14.

Gordie provided a quick review for September 30th, 2014. Each month, the asset allocations are reviewed to determine how to rebalance when a portion of the funds need to be moved to cash to pay retiree benefits, following the asset allocations in our investment policy. For the month, a lot of red numbers (losses) shown on page 3 of the report for the quarter. Through the end of the 3rd quarter, $720 million managed, looking broadly, small cap equity struggled, large cap did better than small cap, international outperformed the benchmark, fixed assets also outperformed the core index. In summary, for the past 3 months, TSRS experienced a 78 basis point loss on investments, compared to the custom index at a 60 basis point loss. Paul Erlendson observed that over the past 5 years, the report shows that the CPI plus 4% benchmark compared to the fund's actual performance at 11.47%, TSRS has done very well during the past five years. Going forward, it would not be a surprise to see less lofty returns, closer to the custom benchmark.

6) **Callan Associates - Paul Erlendson, Gordon Weightman**
   a. Discussion of International Small Cap Equity Manager Search
   b. Evaluation of Causeway's ACWI-Ex US Strategy

Paul Erlendson began with reviewing Callan's evaluation of Causeway's ACWI ex-US strategy (item 6b); indicating they had very strong credentials; and with the positive experience TSRS has already had with Causeway's developed markets, they recommend the Board consider interviewing them for the emerging market exposure. This would simply involve revising the mandate for Causeway to provide greater exposure to emerging capital markets. It was also discussed if the Board wanted to stay with Causeway or look elsewhere and open it up to other Small Cap Managers. Callan summarized their evaluation of Causeway stating they are an excellent candidate and asked the Board how they wanted to move forward on this.

Kevin Larson indicated he was comfortable with the recommendation to start this process by interviewing Causeway, **making a motion to schedule Causeway for an interview as a new non-US emerging market asset class motion was 2nd by Eric Kay. Passed 5-0** (Chairman Fleming and John O'Hare absent). Allan indicated Causeway was already scheduled in February for their annual manager review. Paul indicated the investment policy changes would essentially cause a turnover of approximately 20% of the plan's portfolio over a relatively short period of time, with all these moving parts in multiple asset classes and purchasing assets in emerging markets, it's much more complex. Accordingly, he recommended utilizing a qualified 3rd party vendor to manage the transition of assets from current managers to the new managers. The time horizon for the transition will depend on how soon a transition manager can be identified. Once that happens, the transition can probably occur during a calendar quarter.

In considering the transition manager, a **motion was made by Kevin Larson, 2nd by Eric Kay, to ask Callan to work with Mike Hermanson and Allan Bentkowski for the decisions needing to be made to hire a transition manager, motion passed (6-0 Chairman Fleming absent).**

Next, Callan gave an extensive review of 5 finalists identified by Callan's investment committee for the International Small Cap Equity Managers, which were: MFS Investment Management, Brandes Investment Partners, L.P., American Century Investment Management, Alliance Bernstein, QS Batterymarch Financial Management, Inc. Paul Erlendson walked the Board members through the manager profiles for all of these managers and the Board discussed each manager's performance, the proposed investment vehicles, investment fees, and various other issues.

Following this discussion, Callan asked for direction from the Board as to which managers should be interviewed. Following discussion of these finalists a **motion made by Silvia Amparano to interview these small Cap International Managers: MFS Investment Management, Brandes Investment Partners, L.P.,**

and American Century Investment Management at the earliest opportunity. 2nd by Curry Hale. Motion passed 6-0 (Chairman Fleming absent).

7) **Administrative Discussions – Cassie Langford**
   a. Board Governance Policy – General Meeting Matters
   b. Board Governance Policy - Conflict of Interest Policy

Cassie Langford, TSRS outside counsel discussed the draft governance policies provided in today's materials. The discussion by the Board provided Cassie with feedback and other potential modifications were discussed. Cassie will bring an updated draft to the Board within the next few months for the Board to review.

8) **Articles for Board Member Education / Discussion**
   a. Callan Memorandum: Bill Gross resigns from PIMCO (October 1, 2014 Callan Associates Fixed Income Global Manager Research Team, Paul Erlendson, Gordie Weightman)

9) **Call to Audience**

Jorge Hernandez, Sr. Accountant with Housing and Community Development Department was in audience to inform the board of his candidacy for Board Representative.

10) **Future Agenda Items – None**

11) **Adjournment – Motion to adjourn made by John O'Hare, 2nd by Eric Kay, motion approved 6-0. Meeting adjourned at 4:00 PM.**

Approved:

for:	12/1/14		12-1-14
Robert Fleming, Chairman of the Board	Date	Michael Hermanson, Plan Admin.	Date