TUCSON SUPPLEMENTAL RETIREMENT SYSTEM
BOARD OF TRUSTEES

Meeting Minutes – August 29, 2013
Finance Department Conference Room, 5th floor East
City Hall, 255 West Alameda
Tucson, Arizona 85701

Members Present:	Robert Fleming, Chairman Brandy Kadous, Elected Representative Lani Simmons, Human Resources Director Karen Tenace, Elected Representative Kevin Larson, CM appointee Kelly Gottschalk, CFO and Assistant City Manager
Staff Present:	Dave Deibel, Deputy City Attorney Melissa Waychoff, Administrative Assistant Michael Hermanson, Pension Administrator Allan Bentkowski, Treasury Finance Manager Silvia Navarro, Treasury Administrator Michael Jesse, Lead Management Analyst
Guests:	Gordon Weightman, Callan Associates Paul Erlendson, Callan Associates Judy O'Connell, Champlain Scott Brayman, Champlain Jenefer Carlin, Retiree Representative Teri Smith, Aberdeen Maree Mitchell, Aberdeen Vittorio Lacagnina, SteelRiver
Absent/Excused:	John O'Hare, Elected Retiree Representative

A. Call to order – Chairman Fleming called the meeting to order at 8:30AM.
B. Consent Agenda
   1. Approval of July 31st, 2013 Board Meeting Minutes
   2. Retirement ratifications for the month of August 2013
   3. July 2013 TSRS expenses

Motion to approve consent agenda made by Kevin Larson, 2nd by Karen Tenace, motion approved 4-0 (John O'Hare absent, Lani Simmons late, Kelly Gottschalk late).

C. Investment Activity Report Administrative Discussions
   1. Callan Associates – Introduction, initial comments on today's investment manager reviews.

Champlain is behind the benchmark, but they protect on the downside and are sticking to what they do well. Over the last year, Champlain has been around median, at 53rd. This is what is expected from them given their defensive position. In 2008 they were in the 2nd percentile against active midcap managers. 2008 and 2009 show how they protect on the downside and do not keep up on the upside.

Aberdeen EAFE Plus has had a tough start and is in the 97th percentile at the bottom. They have been underweight to Japan, which is one of the best performing countries. They try to find the best stocks in international space. Aberdeen is expected to be very competitive in the long-term. It has been a short time frame in a volatile market, so Callan still feels Aberdeen is doing what they have been asked to do.

SteelRiver is an Infrastructure fund with 7 strategies that are 50% in gas distribution type companies; one of which is a pipeline. This last year the pipeline strategy has been difficult because the pipeline is being repurposed to accommodate changes in the energy market, and that adds regulatory challenges. In illiquid investments, it gets a lot more challenging to do apples to apples comparisons. They have plans to work through this single investment going forward.

2. Champlain – Annual Investment Manager Review

Scott Brayman, CIO and Managing Partner: there have been no investment process changes, the firm only manage small and mid cap assets. They have had good market appreciation and growth in the mid cap strategy. The firm has experienced no personnel changes, the team is still the same. They know they were hired to be great and reported returns from recent periods are good, but trailing the Russell mid-cap benchmark, so Scott is unsatisfied. Champlain's three year performance has been straight up, with an annualized return of 18.86% (net of fees). Equities can be risky at times, "liquidity is a coward" and this has been a liquidity induced market. Champlain outperforms in difficult periods and it outperforms their underperformance in the strong periods. They still buy highly reliable companies. They do not expect to change how they perform in this environment and will stay in quality stocks at all times; and in a full market cycle, they will outperform. A lot of their clients manage money themselves and they are very comfortable with Champlain's operations. REITs are included in the benchmark, which has hurt historical performance, but are now underperforming sharply which should favor them against the benchmark in the near term. The Fed's quantitative easing will exit at some point. The banks Champlain has holding in have forsaken earnings in the short term because they will do better in a rising rate environment. Champlain is overweight in financials, but not in the financials that will hurt performance. Allan Bentkowski pointed out the Board did pick Champlain to protect on the downside. Champlain is not exposed to cyclical materials and that has helped this year. APTAR is a bottom up idea. Champlain has owned APTAR for several years. APTAR produces packaging and Champlain believes they are so much better than they have ever been priced. Champlain is overweight in property and casualty insurance, machinery industry, healthcare and is watchful for opportunities to further high-grade strategies. Champlain will do best in the worst of times and should earn three times as much as the benchmark. The more time Champlain is given, the more advantage they will create.

3. Aberdeen Asset Management – Annual Investment Manager Review

Aberdeen is a very large organization and this is a strength. They enjoy a very low turnover of staff. They have offices in 23 countries throughout the world and this is an advantage because they take a global approach to business. They manage EAFE Plus for us, which is a global strategy. They are bottom-up driven stock pickers.

The team is based in Aberdeen Scotland and has been together for ten years. Earlier this year, a senior manager was tragically killed and they have not replaced his position, preferring to spread his work among the team. At the end of the year, the firm will analyze the situation to see if his position needs to be replaced. They have 85 regional managers based around the world. They cannot invest in a company without meeting with its management team at least once. They are trying to buy companies they have a high degree of trust in, and have long-term growth potential. They have low turnover in their portfolios. They pick approximately 40 out of 280 stocks. They analyze a company based on quality and valuation. They prefer companies with good cash flow, stocks with strong balance sheets. The regional team is generating ideas and the global team is vetting them.

Kevin Larson left at 9:45AM.

The list of 280 stocks is fairly stable; with are a few new stocks every so often. Over a one year period there might be 10-12 names in and out. Over a longer time period, Aberdeen does very well vs. the benchmark and in a shorter period they may look very good or very bad vs. the benchmark.

Aberdeen has underperformed over the last year, especially in the last six months. Emerging markets is underperforming YTD. There has been a slow down in growth in China and a general slow down in emerging markets. Aberdeen's emphasis is on bottom-up stocks. Aberdeen is more defensive in nature and positioning. Canon is losing market share by the day and Aberdeen is selling it. They are overweight in Switzerland, the United Kingdom, and Italy. Aberdeen is underweight in Japan, Germany, and Australia. Aberdeen is overweight in Information Technology, Energy, and Consumer Staples. They are underweight in Consumer Discretionary, Financials, and Industrials. Aberdeen remains cautious in their market outlook; they are not convinced about the U.S. earnings or the future impact from reduced quantitative easning. Oil prices are likely to go up further due to tensions in Syria. Aberdeen is comfortable with their position in the long-term even though they have under-performed in the short-term and might continue to under-perform in the short-term. This will not make them change their investment process.

4. SteelRiver Infrastructure Management – Annual Investment Manager Review

SteelRiver is an Independent Manager with an integrated team that concentrates on North American Infrastructure projects. They focus on proprietary origination of controlling stakes in core infrastructure assets, investments providing essential services with stable cash flows and monopolistic but often regulated characteristics. The firm operates on an "ownership culture" with compensation mechanisms linked to portfolio performance. The investor base is made up of pension plans and insurance companies. They expect to be fully invested by the beginning of 2014. They are diversified by sector: Electric transmission 17%, Gas Transportation 19%, Gas Distr. 49%, Ports 6%, and Rail 10%.

The portfolio is performing well and would be doing better if not for an underperforming asset. The problem child is Natural Gas Pipeline Company of America (NGPL). Investors were moving gas from gas rich areas to non-gas rich areas, which created an additional revenue stream. If the situation continued to stay the way it was, there would be a continuous flow of gas, which is the business model they applied.

However, with the discovery of an abundance of natural gas, the gas market supply in the U.S. became excessive and is not needed as much, creating a flatter opportunistic flow. There will continue to be more gas than the U.S. will need, which is much different than original studies indicating the US would run out of gas in 20 years or so. This resulted in contracts not being renewed because clients have a local supply, and no longer need to transmit gas from one area to another.

The U.S. will be exporting gas into other countries, meaning that the transmission needs to be repurposed for a reversal flow and pieces of the pipeline will be converted to move liquid gas. NGPL is the largest investment of the fund and it was impossible for them to foresee that the market would change so much, so they are trying to mitigate the impact. The repurposing project would be aimed for completion in 2016. The forecast on the model is going to be a 5% fund if it continues performing the way it is and this is a gross projection.

Diversified Port Holdings has a growth platform in the break-bulk and bulk port sector, with multiple opportunities to expand and diversify its offerings. Cargo handled includes perishables, forestry, metals, and project cargo. It has been performing on par or slightly below where they wanted them to be. They were slightly affected by the financial crisis. They expect a good year for next year as the economy picks up. Trans Bay Cable is their electric transmission line. It provides approximately 40% of San Francisco's electric supply. It is the first purely privately-proposed and financed solution to meet the reliability needs of a regional utility grid in the country. Patriot Rail Corp. is a short line rail across 13 railroads with 500 total rail miles transversing 13 U.S. States. Attractive sector growth trends driven by freight transport dynamics and competitiveness of rail over trucking. Peoples Natural Gas and Peoples TWP are regulated utilities in Pennsylvania. Both are performing extremely well and have stable customer bases or primarily residential and commercial users. In December 2012 SteelRiver bought Equitable Gas Company, which is in Pennsylvania as well.

SteelRiver has a solid investment pipeline with a combination of opportunities stemming from existing portfolio and new initiatives. They do not expect to be in the airport or parking space. They are moving along on Fund II and everything else is moving along positively. Gas Distribution is the last set of gas that goes into a residential home. Gas transportation is interstate large gas pipeline.

5. Callan Associates – 6/30/2013 Quarterly review of TSRS investment portfolio performance

Paul Erlendson: As this is the firm's first report being to the TSRS Board, Paul would like to hear the Board's preferences on the content in the report. Callan's reports are gross, not net of fees; and Chairman Fleming would like to see net of fees included in the next report. Paul Erlendson noted, that comparing other managers performance adds the need to do that before fees are deducted because the other manager's would have different fee schedules. Chairman Fleming also mentioned saving trees, and preferred an electronic booklet in the future. Allan suggested maybe a paper version for the Board packets at a high level summary and and electronic version could provide more detail. Karen Tenace would like an executive summary in the beginning of the quarterly reports with highlights and page numbers referenced and a watch list provided.

Paul continued, the U.S. is the best house on a bad block right now. Unemployment has come down and we are heading in the right direction there; consumer spending is starting to drive the growth number, but we are still in a low growth environment; inflation is 1.8% and 2% is the goal, so we are doing well there. In late May, Federal Reserve Chairman, Bernanke, made comments about tapering the bond buyback program, which sent equity markets tumbling from their all-time highs and bond yields to rise to levels not seen in more than a year. The method for calculating GDP has changed and would add $200B to GDP versus the old method of calculation. The higher GDP is merely (partly) a reflection of their calculating it differently.

Europe is still technically in a recession and the unemployment is approximately 12%. Japan is a bright spot and was up 4%. The weaker Yen exchanged into U.S. Dollars offers a lower return because the dollar is more expensive. Emerging markets are down. U.S. Equities are up over 20%. The 10 year returns are starting to look more normal. S&P 500 is up 14.6% YTD as of 8/28/13; Russell 2000 up 20.7%; Emerging markets down 11.9%; Bonds down 3%; BCTips down 7.9%; up 9.3% for MSCI EAFE.

The TSRS portfolio performance for the year posted a 14.8% return, a great one year return over the benchmark. The manager effect had all of the outperformance, PIMCO and J.P. Morgan outperformed and Causeway did well in the international space. Active managers have done very well over the benchmark in the last year. LaSalle is aggressively liquidating and have approval to keep the fund open until mid 2014 and the fund is taking an overall loss. J.P. Morgan had a change at the top with strategic property fund and is the largest fund in that space and Ann Pfeifer has been running it for 15 years and will be retiring in October this year. Ann Cole and Kim Adams, who have worked alongside of her, will be co-managers, one for the East and one for the West. This type of qualitative change could warrant watch list status for them but Callan is not as troubled by this change as they would be with a smaller firm.

6. Portfolio composition, transactions and performance review

Highlights: Net asset value as of 7/31/13: $660.9m; balance at 6/30/13 $638.3m; 8/28/13$655.9m. All managers and asset classes are within the asset target range from the investment policy. A transfer of $1M out of the portfolio to the investment pool account fund 072 in July to pay retirement benefits. July returns for the month were 3.71% vs. 3.2% for the custom plan index. Calendar YTD returns were 10.76% on the total fund vs. a return of 9.85% for the custom plan index.

7. BNY Mellon Trust / Custodian Fee Approval

Callan suggested putting a cap on events at $250 per event. Callan Associates asked BNY Mellon to waive the 3% annual escalator for us and this was approved by BNY Mellon. **Motion to approve BNY Mellon Trust Custodian Fee made by Kevin Larson, 2nd by Brandy Kadous, motion approved 5-0 (John O'Hare absent, Lani Simmons late).**

D. Administrative Discussions

1. Sustainable Retirement Benefits Act

The Judge did not make a decision regarding the injunction yet. We do not know where it stands other than the Judge agreed with the Plaintiffs to throw out 5,500 of the 23,000 signatures. We would need a 27% error rate it is not likely to be that high, so the ballot will most likely go forward. In planning for time to discuss the issues and make decisions related to the Act, Mike is anticipating there may be a need for two special meetings in September. There will be key issues such as the structure of the plan design and possibly issuing an RFP. The new retirement plan has to be up and running within the timeframe allowed. Cassie Langford will be scheduled to come in for the discussions as well as the actuary.

2. SRBA FAQ's for Board Approval, Talking points for Board member information – for the Board's review and commentary.

3. Status of TSRS Board Member Election

There are two applicants that need to be reviewed by two Board members. Brandy Kadous will make a recommendation to the Board next month.

4. Educational Topics for October 25 Board Retreat

E. Articles for Board Member Education / Discussion
   1. Returns top benchmarks as equity markets shine (P&I, Aug. 19, 2013)
   2. The Unsteady States of America (The Economist Aug. 2, 2013)

F. Future Agenda Items
   1. Reconstituting advisory committee in City Code (October meeting)
   2. Actuary's recommendations for improving the funded status of the Plan (October meeting)

G. Call to Audience – Silvia Amparano as the Finance Director will now be the primary Board member starting in September 2013 and Kelly Gottschalk will be her backup. Also, there may be a negative article out on Sunday in the Arizona Daily Star reporting the pension contribution change.

H. Adjournment – **Chairman Fleming stated we are adjourned at 11:45AM.**

Approved:

10/3/13			09·26·13
Robert Fleming Chairman of the Board	Date	Michael Hermanson Plan Administrator	Date