

Minutes of the TCRS Board of Trustees meeting on September 26, 2014

The Board of Trustees of the Tennessee Consolidated Retirement System met on Friday, September 26, 2014 at 10:08 a.m. The meeting was held in Room 30 of the Legislative Plaza with Chairman David Lillard presiding.

Chairman Lillard asked Ms. Bachus to conduct an attendance roll call. The following members were present: Chairman David Lillard, State Treasurer; Mr. Tre Hargett, Secretary of State; Commissioner Rebecca Hunter, Department of Human Resources; Ms. Jill Bachus, Director of TCRS; Mr. Michael Barker, Ms. Patsy Moore, Mr. Bill Kemp, Mr. Ken Wilber, Mr. Harold Morrison, Mr. Kevin Fielden, Ms. Angie Judish, Mr. Alfred Laney, Mr. Bob Wormsley, and Mr. Charles Archer.

Approval of the June 27, 2014 Minutes of the Board of Trustees

On a motion by Mr. Morrison and seconded by Mr. Wilber, the minutes of the June 27, 2014 TCRS Board of Trustees meeting were unanimously approved.

TCRS Board of Trustees Appointment

Chairman Lillard informed the Board that Ms. Priscilla Bright recently retired leaving a vacancy on the Board. Mr. Charles Archer with the Department of Revenue was nominated to complete the term of Ms. Bright.

On a motion by Chairman Lillard and seconded by Mr. Hargett, the Board unanimously approved the appointment of Mr. Charles Archer and the oath of office was administered.

Board of Trustees Committee Reports

Chairman Lillard recognized Mr. Barker to provide the audit committee report. Mr. Barker mentioned the committee reviewed the Treasury Department's standard of professional conduct. Ms. Bachus provided an update on Concord. The committee reviewed the private equity disclosure information. In addition, the committee had a discussion on the control culture and the tone set by top management.

Chairman Lillard recognized Ms. Bachus to review the administrative committee report. Ms. Bachus provided an update on Concord and noted the final phase of Concord went live on July 28, 2014. The committee reviewed political subdivisions seeking participation into TCRS. Ms. Bachus provided a status on retirement applications being processed.

Chairman Lillard reviewed the investment committee meeting. Chairman Lillard mentioned the committee approved a real estate transaction. The committee received a report from Mr. Michael Brakebill and Mr. Andy Palmer regarding the strategic lending portfolio. Chairman Lillard noted the portfolio continues to perform at a good level.

Investment Report

Chairman Lillard introduced Mr. Brakebill who provided an update covering fiscal year 2014 that included staffing, the process, and the portfolio. Staffing changes across the real estate, private equity, equity and fixed income teams were addressed. Regarding process, Mr. Brakebill discussed efforts related to the selection of real estate separate account advisors, the selection and retention of the existing real estate consultant, soft dollar procedures, the transfer of custodians, and legal procedures to accommodate the increasing transaction volume of the real estate, private equity, and strategic lending programs.

Mr. Brakebill then provided an overview of the portfolio and its performance over the fiscal year ending 2014. Overall, the TCRS portfolio had the fifth best year in its thirty-eight year history with a total return of 16.7% for the fiscal year. According to a database tracked by SIS, the general investment consultant for the fund, the trailing one year performance beat 52% of comparable funds and the three year figure beat 78% of comparable funds.

The US equity and fixed-income portfolios were both noted for their strong contributions to returns. The developed international portfolio underperformed its benchmark, and efforts related to the monitoring of the developed international managers were discussed. The process for constructing the emerging markets portfolio was addressed as was how the emerging markets portfolio outperformed its benchmark for its first full fiscal year. While the real estate portfolio lagged its benchmark for the fiscal year, Mr. Brakebill highlighted the relative long-term strength of performance versus peers. Finally, the private equity portfolio was deemed to be performing very well given its relative youth, which makes an assessment of performance less meaningful at this point.

Mr. Brakebill concluded with guidance on areas of current and future focus. First, additional commitment activity in the real estate, private equity, and strategic lending programs is expected. Second, an effort to revise the investment policy is underway with a tentative target for completion in June 2015.

Chairman Lillard reviewed a report published from Moody's Investors Service concerning the U. S. State and Local Government pension plans. Material was distributed to members for their review.

Political Subdivisions Petitioning for Membership in TCRS

Ms. Bachus advised the Board that the administrative committee had reviewed the requests for participation in TCRS for McMinn County Economic Development Authority and Upper Cumberland Gas Utility District.

On a motion by Ms. Bachus and seconded by Mr. Laney, the Board unanimously approved the request for participation in TCRS for McMinn County Economic Development Authority and Upper Cumberland Gas Utility District.

Funding Policy of TCRS

Chairman Lillard reviewed the funding policy with the Board. The purpose of the funding policy is to establish a formal methodology for financing the pension obligations accruing under the TCRS. The funding policy complies with all applicable laws, rules, and regulations of the State of Tennessee and the Federal Government. Chairman Lillard asked for a recommendation to adopt the funding policy.

On a motion by Mr. Hargett and seconded by Mr. Wilber, the Board unanimously adopted the funding policy of TCRS.

Executive Committee Appointment

Chairman Lillard provided a summary on the responsibilities of the Board of Trustees executive committee. Chairman Lillard nominated Mr. Michael Barker, Mr. Alfred Laney, and Mr. Bob Wormsley to serve on the executive committee. Commissioner Hunter seconded the motion and the Board unanimously approved Mr. Barker, Mr. Laney, and Mr. Wormsley to serve on the executive committee.

Other Business

Chairman Lillard announced future meetings. He reminded Board members that a Board educational session will take place after the meeting.

Adjournment

Chairman Lillard announced the completion of the business at hand and asked if there was any other business to come before the Board.

On a motion by Commissioner Hunter and seconded by Mr. Morrison, the Board unanimously approved the TCRS Board of Trustees meeting be adjourned.

With no other business, the Board of Trustees adjourned at 11:00 a.m. on September 26, 2014.

Respectfully Submitted,



**Jill Bachus
Director, TCRS**

Approved:



**David H. Lillard, Jr.
Chairman of the Board**