

Minutes of the TCRS Board of Trustees Meeting on June 29, 2018

The Board of Trustees of the Tennessee Consolidated Retirement System met on Friday, June 29, 2018 at 10:05 a.m. The meeting was held in House Hearing Room III of the Cordell Hull Building with Chairman David Lillard presiding.

Chairman Lillard asked Mr. Wayman to conduct an attendance roll call. The following members were present: Chairman David Lillard, State Treasurer; Mr. Jamie Wayman, Director of TCRS; Mr. Justin Wilson, Comptroller to the Treasury; Mr. Tre Hargett, Secretary of State; Ms. Deborah Tate, Administrative Director of the Courts; Mr. Michael Barker, Mr. Bill Kemp, Mr. Bob Wormsley, Mr. Ken Wilber, Mr. Alfred Laney, Mr. Paul Varble, Mr. Ed Taylor, Ms. Patsy Moore, and Ms. Vicki Burton.

Approval of the March 23, 2018 Minutes of the Board of Trustees

On a motion by Mr. Wilber and seconded by Ms. Tate, the minutes of the March 28, 2018 TCRS Board of Trustees meeting were unanimously approved.

Board of Trustees Committee Reports

Chairman Lillard recognized Mr. Wayman to review the administrative committee report. Mr. Wayman mentioned the committee reviewed the political subdivision seeking participation into TCRS. Mr. Wayman mentioned Ms. Joy Harris provided an update on employer participation and member education and Ms. Erica Nale provided an update on operations of the retirement system. The committee reviewed legislation that was passed this session that impacted TCRS.

Chairman Lillard recognized Mr. Barker to review the audit committee report. Mr. Barker mentioned the committee approved the minutes from the previous committee meeting. Mr. Earle Pierce presented several audits recently completed by internal audit, provided an overview of audit project tracker activities that are ongoing, and reviewed the 2019 audit plan. The committee reviewed the private equity disclosure. Mr. Barker mentioned there was one item reported on the Comptroller Hotline. The report was resolved by TCRS staff.

Chairman Lillard provided the investment committee report. Chairman Lillard mentioned the committee approved various investment transactions. Mr. Michael Brakebill provided a report on different investment portfolios.

Investment Report

Chairman Lillard called on Mr. Michael Brakebill to give an overview of the markets and pension fund performance. Mr. Brakebill began with noting the downward revision of GDP growth in the first quarter from 2.2% to 2%. This was weaker than growth in the prior quarter, but the second quarter is expected to be much stronger. He also mentioned that global synchronized growth has tempered since the first quarter with softening in parts of Europe and Asia.

Mr. Brakebill stated that the portfolios has been impacted by monetary tightening. Stocks have come off their January peaks, credit spreads have widened and yields have increased. Mr. Brakebill noted that 30-year mortgage rates in California have increased 70 basis points and borrowing costs are expected to increase for consumers as a result of Federal Reserve policy. Mr. Brakebill also mentioned that as a result, short-term Treasuries are beginning to become more attractive, consequently the portfolios cash allocation is expected to increase after hovering around 0% during the low interest rate environment. Tax cuts are impacting corporate earnings positively and as a result, equities appear more favorable than fixed income.

Moving to long term returns, Mr. Brakebill mentioned that US equities outperformed ten year expectations from 2008 whereas international markets underperformed over the same time period, this being partially due to the strength of the dollar. He then highlighted the different portfolios within the total plan and stated that alternative assets have been slowly increasing as planned. With fiscal year total plan returns expected to finish around 8%, TCRS is expected to outperform its benchmark.

Mr. Brakebill then updated the Board on the international equity manager selection, stating though returns have been good, three relationships will be terminated and replaced with new managers to better align with goals. Real estate managers were due for contract renewal this year as well which resulted in the termination and replacement of three existing relationships.

With plan assets at \$49.6 billion and June benefits being paid out to retirees, Mr. Brakebill reiterated the expectation for the one-year return figure to be near 8% for the total plan. Mr. Brakebill then noted that with the rising rate environment, staff will continue to watch the markets closely and monitor how assets react.

Political Subdivision Petitioning for Membership in TCRS

Chairman Lillard introduced Mr. Wayman to review political subdivisions seeking participation into TCRS. Mr. Wayman reviewed the request for participation in TCRS for Red Boiling Springs. Red Boiling Springs selected the regular defined benefit plan.

On a motion by Mr. Wayman and seconded by Mr. Barker, the Board unanimously approved the request for participation in TCRS for Red Boiling Springs.

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 Mr. Wormsley and seconded by Mr. Barker, the Board unanimously approved the TCRS Board of Trustees meeting be adjourned.

With no other business, the Board of Trustees adjourned at 10:37 a.m. on June 29, 2018.

Respectfully Submitted,

/s/Jamie Wayman
Jamie Wayman
Director, TCRS

Approved:

/s/David H. Lillard, Jr.
David H. Lillard, Jr.
Chairman of the Board