

Minutes of the TCRS Board of Trustees Meeting on September 28, 2018

The Board of Trustees of the Tennessee Consolidated Retirement System met on Friday, September 28, 2018 at 10:09 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; Commissioner Rebecca Hunter, Department of Human Resources; 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 Mr. Kevin Fielden.

Approval of the June 29, 2018 Minutes of the Board of Trustees

On a motion by Commissioner Hunter and seconded by Mayor Wilber, the minutes of the June 29, 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 discussed four local governments that are petitioning for membership in TCRS effective October 1, 2018. Ms. Mary Beth Franklyn provided an update on activities in the employer reporting and participant education and Ms. Erica Nale provided an update on member services and financial services. Mr. Wayman mentioned annual statements are available online and the retirement application became available online in August. He also mentioned the actuarial valuation will be reviewed at the next board meeting.

Chairman Lillard recognized Mr. Barker to review the audit committee report. Mr. Barker mentioned the audit committee approved minutes from the June 29, 2018 meeting. The committee received the internal audit results and reviewed the audit project tracker. The committee reviewed the private equity disclosure. Mr. Barker mentioned no reports were submitted to the Comptroller Hotline.

Chairman Lillard reviewed the investment committee report. Mrs. Margaret Jadallah reviewed the executive summary report and Mr. Michael Brakebill reviewed the investment report. The committee approved the amendments to the investment policy.

TCRS Board of Trustees Appointments

Chairman Lillard mentioned Mr. Alfred Laney has been reappointed for another term as the state retiree representative.

Chairman Lillard mentioned that Mayor Ken Wilber is not seeking re-election and Ms. Betsy Crossley, Commissioner of City of Brentwood, was selected to fill the remainder of Mayor

Wilber's term on the Board. Ms. Betsy Crossley was appointed to the Board by the Tennessee Municipal League.

Chairman Lillard mentioned Mr. Harold Morrison's term expired June 30, 2018 and Ms. Stacey Hobbs has been appointed as middle Tennessee teacher representative by House Speaker Beth Harwell.

Investment Report

Chairman Lillard recognized Mr. Michael Brakebill of TCRS and Mrs. Margaret Jadallah of Verus Investments to give an overview of the Investment Report. Mrs. Jadallah reviewed the Verus Executive Summary Report, which showed the fund ended fiscal year 2018 with \$49.7 billion in assets. The overview began by describing the key characteristics of 2018 within the markets which included global synchronized growth, low, yet rising inflation, and a strong US dollar. Mrs. Jadallah then stated that GDP growth for the second quarter was recently revised upward to 4.2% and that inflation came in at 2.2% which is above the Federal Reserve's target, implying that rate hikes will continue.

Mrs. Jadallah then reviewed the TCRS portfolio, which returned 8.19% for the year, beating its benchmark by 0.43%, in addition to beating the actuarial rate of return. Portfolio characteristics highlighted were the neutrality of total plan allocation and the alternative assets underweight compared to the target allocation. As the alternative assets are multi-year strategies, this underweight is expected to converge with the target weightings as the portfolios continue to be built. Mrs. Jadallah concluded by again noting the neutrality of the total plan, stating that it is adhering to the same risks as the benchmark and being implemented in a very risk aware manner.

Chairman Lillard then called upon Mr. Michael Brakebill to review the portfolio. Mr. Brakebill began by stating the portfolio increased by \$2.7 billion over the fiscal year including net cash outflows of \$1.1 billion. Continuing on the alternative asset classes, Mr. Brakebill stated that they are growing toward their intermediate target of 7%, with a long-term target of 10%. Regarding changes in the portfolio, Mr. Brakebill highlighted the success of the large cap overlay portfolio which outperformed by 0.63%, the successful completion of the international and real estate manager transitions, along with the recent implementation of a small cap quantitative portfolio.

Investment Policy

Chairman Lillard recognized Mr. Brakebill to give an overview of the proposed policy revisions. The policy revisions were discussed in context of investment related changes, non-investment changes, and minor editorial changes.

With respect to investment operations, there were six changes related to benchmarks, cash and short term fixed income security management, liquidity, geographic diversification for alternative investments, and co-investment and secondary transactions for alternative investments. An addition to the policy includes liquidity stress testing, which has been performed on an ongoing basis over the past three years in cooperation with a credit rating agency and is

designed to help monitor risk. This change memorializes a key risk control activity. With respect to geographic diversity and limits for alternative investments, the policy was adjusted to clarify permissible activities and better align alternative investment activity with the intent of geographic opportunities and limitations. The final investment related revision improves the flexibility of the alternative asset programs when controlling risks, reducing fees and exploiting unique investment opportunities through strategies such as co-investment and secondary transactions.

Mr. Michael Brakebill then turned to non-investment related revisions in the investment policy. The first revision concerns the removal of language surrounding the Investment Advisory Council which was dissolved via legislation in 2018. The next revision concerns external pension onboarding, allowing management of assets that do not conform to policy to be accepted into the group trust. The final revisions are intended to clarify and reduce duplication of conflict monitoring efforts in policy and procedures. Mr. Brakebill then explained that the remaining changes are inconsequential and editorial in nature, including definition changes and other minor corrections.

Ms. Deborah Taylor-Tate then asked for clarity on the acceptance of non-conforming assets to which the Treasurer replied that its purpose is to allow for a smooth transition when onboarding pensions that may have assets that previously would have prevented absorption in to TCRS. Ms. Taylor-Tate then asked for more clarity regarding the cash and short term management revisions specifically relating to language around margins and collateral. Mr. Brakebill explained the process of investing in futures contracts which settle on a daily basis, clarifying that the language specifies which assets can be held in the collateral pool for daily settlement.

On a motion by Mr. Kemp and seconded by Commissioner Hunter, the Board unanimously approved the proposed changes to the investment policy.

Political Subdivisions 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 the Town of Coopertown, City of Gallatin, Watauga River Regional Water Authority, and Wayne County Emergency Communications District. The Town of Coopertown, Watauga River Regional Water Authority and Wayne County Emergency Communications District have selected the legacy defined benefit plan and the City of Gallatin has selected the state and teacher hybrid plan. The effective date of participation in TCRS is October 1, 2018.

On a motion by Mr. Wayman and seconded by Mr. Laney, the Board unanimously approved the requests for participation in TCRS for the Town of Coopertown, City of Gallatin, Watauga River Regional Water Authority, and Wayne County Emergency Communications District.

Executive Committee Appointments

Chairman Lillard provided a summary on the responsibilities of the Board of Trustees executive committee. Chairman Lillard reappointed Mr. Michael Barker, Mr. Alfred Laney, and Mr. Bob

Wormsley to serve on the executive committee. Mr. Kemp 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 Mr. Laney and seconded by Mayor Wilber, the Board unanimously approved the TCRS Board of Trustees meeting be adjourned.

With no other business, the Board of Trustees adjourned at 11:03 a.m. on September 28, 2018.

Respectfully Submitted,

**Jamie Wayman
Director, TCRS**

Approved:

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