

Minutes of the TCRS Board of Trustees meeting on November 18, 2016

The Board of Trustees of the Tennessee Consolidated Retirement System met on Friday, November 18, 2016 at 10:00 a.m. The meeting was held in the Nashville Room of the Tennessee Tower 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. Justin Wilson, Comptroller of the Treasury; Mr. Tre Hargett, Secretary of State; Ms. Jill Bachus, Director of TCRS; Ms. Deborah Tate, Administrative Director of the Courts; Commissioner Rebecca Hunter, Department of Human Resources; Mr. Michael Barker, Mr. Bill Kemp, Mr. Harold Morrison, Ms. Patsy Moore, Mr. Alfred Laney, Mr. Paul Varble, and Ms. Vicki Burton.

Approval of the September 30, 2016 Minutes of the Board of Trustees

On a motion by Mr. Morrison and seconded by Commissioner Hunter, the minutes of the September 30, 2016 TCRS Board of Trustees meeting were unanimously approved.

Board of Trustees Committee Reports

Chairman Lillard recognized Ms. Bachus to review the administrative committee report. Ms. Bachus mentioned the administrative committee discussed the political subdivisions seeking participation in TCRS and third party administration for the City of Franklin. The Director of Accounting reviewed the June 30, 2016 financial statements. Additionally, an operations update was provided to the committee.

Chairman Lillard recognized Mr. Barker to review the audit committee report. Mr. Barker mentioned the audit committee reviewed and approved the minutes from the previous meeting. The committee discussed the audit opinion letter, internal audit reports and memos, reviewed the internal audit project schedule and the private equity disclosure, the Comptroller hotline, and reviewed an article about the work of an audit committee.

Chairman Lillard provided the investment committee report. Chairman Lillard mentioned the committee approved two investment transactions. The committee discussed and recommended for the Board to adopt proposed changes to the investment policy. An investment report summary was provided to the committee.

Audit Committee Member Appointment

Chairman Lillard nominated Mr. Edward Taylor be appointed to the audit committee replacing Mr. Crisp whose term expired June 30, 2016.

The motion was seconded by Mr. Barker, and the Board approved the appointment of Mr. Taylor to the audit committee.

Investment Report

Chairman Lillard then called on Mr. Michael Brakebill to speak about the latest activity in TCRS. Mr. Brakebill started by discussing the TCRS portfolio. The size of the fund at the end of September was \$44 billion with roughly neutral weights between stocks and bonds. Reviewing the performance, the one-year returns of 10.95% outperformed 94% of peers and were driven by the fixed income allocation and strong performance by real estate and private equity. Recently staff has focused on adjusting the quantitative model used in the Quant fund, hiring new managers to diversify the international equity portfolio, reducing exposure to inflation linked bonds, and increasing allocation to the strategic lending portfolio. Unaudited year-to-date figures have the fund down slightly from the end of the first fiscal quarter. Year-to-date, the fund has returned 1.47% while being neutrally weighted and roughly 2% under allocated in international equities.

Investment Policy

Mr. Brakebill presented a proposal to change the TCRS investment policy which would increase the asset allocation for real estate, private equity, and strategic lending, and reduce exposure to inflation linked bonds. This would occur in two steps, an intermediate target allocation and a final target allocation. The intermediate target allocation would occur over the next several years, while the final allocation is a long-term goal. The intermediate target allocation should improve TCRS's performance by 30 basis points per year.

On a motion by Mr. Kemp and seconded by Mr. Barker, the Board unanimously adopted the changes to the investment policy.

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 the Bi-County Solid Waste Management System, Blount County Emergency Communications District, Cookeville Boat Dock Road Utility District, City of Franklin, and the Recreation and Parks Commission of Maryville, Alcoa, and Blount County.

On a motion by Ms. Bachus and seconded by Commissioner Hunter, the Board unanimously approved the requests for participation in TCRS for the Bi-County Solid Waste Management System, Blount County Emergency Communications District, Cookeville Boat Dock Road Utility District, City of Franklin, and the Recreation and Parks Commission of Maryville, Alcoa, and Blount County.

Third Party Administration of Pension Plans

Chairman Lillard recognized Ms. Bachus to review the proposed third party administration by TCRS of pension plans outside of TCRS. Ms. Bachus mentioned the City of Franklin is seeking to have TCRS be the third party administrator of its defined benefit plan that is closing to new entrants on December 31, 2016. Initially, TCRS will only handle the investment of the assets for the City of Franklin. The administrative committee reviewed the third party administration to be provided by TCRS and recommends that the Board authorize TCRS to act as the third party administrator for the City of Franklin pension plan effective January 1, 2017.

On a motion by Ms. Bachus and Comptroller Wilson and seconded by Mr. Laney, the Board unanimously approved the third party administration for the City of Franklin pension plan.

Actuarial Valuation Presentation

Chairman Lillard introduced Mr. Justin Thacker from Bryan, Pendleton, Swats, and McAllister to review the actuarial valuation presentation on the Legacy plan for state employees and teachers. Mr. Thacker noted the purpose of the actuarial valuation is to determine employer contribution rates for the Legacy plan and examine the financial health of the plan. He also mentioned that there is a separate process and reporting for GASB 67/68 information.

As determined by the June 30, 2016 actuarial valuation, the employer contribution rates for the Legacy plan will be as follows: the teacher rate will be 9.08%; the aggregate state employee rate will be 19.00%; and state judges and attorneys general rate will be 23.33%. Chairman Lillard mentioned the employer contribution rate does not establish the rate for local governments.

On a motion by Mr. Barker and seconded by Mr. Kemp, the Board unanimously approved the new employer contribution rates for the Legacy plan.

Other Business

Chairman Lillard announced future meetings. He reminded Board members that a new Board member training 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 Commissioner Hunter, the Board unanimously approved the TCRS Board of Trustees motion to adjourn.


With no other business, the Board of Trustees adjourned at 11:20 a.m. on November 18, 2016.

Respectfully Submitted,



Jill Bachus
Director, TCRS

Approved:



David H. Lillard, Jr.
Chairman of the Board

Page is intended to be blank