

Minutes of the TCRS Board of Trustees meeting on December 11, 2015

The Board of Trustees of the Tennessee Consolidated Retirement System met on Friday, December 11, 2015 at 10:00 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. Justin Wilson, Comptroller to the Treasury; Commissioner Rebecca Hunter, Department of Human Resources; Ms. Jill Bachus, Director of TCRS; Ms. Deborah Tate, Administrative Director of the Courts; Mr. Michael Barker, Ms. Patsy Moore, Mr. Bill Kemp, Mr. Harold Morrison, Mr. Kevin Fielden, Ms. Angie Judish, Mr. Alfred Laney, and Ms. Shannon Jones.

Approval of the September 25, 2015 Minutes of the Board of Trustees

On a motion by Mr. Wilson and seconded by Commissioner Hunter, the minutes of the September 25, 2015 TCRS Board of Trustees meeting were unanimously approved.

Political Subdivision Petitioning for Membership in TCRS

Ms. Bachus advised the Board that the administrative committee had reviewed the request for participation in TCRS for South Pittsburg Housing Authority.

On a motion by Ms. Bachus and seconded by Mr. Wilson, the Board unanimously approved the request for participation in TCRS for South Pittsburg Housing Authority.

Code of Conduct/Conflict of Interest Policy

Chairman Lillard introduced Ms. Jennifer Selliers from the Legal, Internal Audit, and Compliance division to review the code of conduct/conflict of interest policy. Ms. Selliers reviewed the proposed changes which reflects the Board's ongoing commitment to an ethical culture and was drafted to ensure consistent application across all policies and in line with best practices for fiduciaries and to in line with our peers. The code of conduct enhances policies related to fiduciaries obligations including prohibition on gifts and solicitations for personal or professional gain. The changes outlines the policies related to the use of information obtained through or connected to the Board members duties, require each member to attend an annual training, and requires the Board to sign an annual attestation.

On a motion by Mr. Barker and seconded by Ms. Tate, the proposed changes to the code of conduct/conflict of interest policy were unanimously adopted.

TCRS Securities Litigation Policy

Ms. Selliers continued by reviewing the TCRS Securities Litigation Policy. She reviewed the proposed changes outlining the duties and responsibilities of various parties including legal

advisors, securities litigation monitors, security litigation counsel and master custodian. The changes also establishes a loss standard and outlines a process for actively participating in security litigation matters which addresses governing principles for securities class actions and foreign group securities litigation.

On a motion by Chairman Lillard and seconded by Commissioner Hunter the proposed changes to the TCRS securities litigation policy were unanimously adopted.

Board of Trustees Committee Reports

Chairman Lillard recognized Ms. Bachus to review the administrative committee report. Ms. Bachus mentioned that Mr. Fred Marshall provided the committee an update on Concord. The administrative committee reviewed the political subdivision request for participation in TCRS. Ms. Selliers gave a brief update on the code of conduct/conflict of interest policy and TCRS securities litigation policy. The administrative committee was updated on various operations in the department.

Investment Report

Treasurer Lillard introduced the Chief Investment Officer, Mr. Brakebill, to review the Investment Report. Mr. Brakebill began his report by noting some key personnel changes since the last meeting including the promotion of Mr. Derrick Dagnan to Deputy Chief Investment Officer. Mr. Brakebill then proceeded to review performance highlights of the portfolio. He acknowledged the growth in allocations of two areas in the portfolio, Real Estate and Private Equity. Mr. Brakebill went into detail how Private Equity and Real Estate have made big strides over the years to finally hit their target allocation in the portfolio. As of today, Real Estate and Private Equity make up 7% and 3% of the portfolio, respectively.

Mr. Brakebill then discussed the performance of the fund as of September 30, 2015. The value of the portfolio was \$41.1B (down 4.2% from the prior quarter and down 0.3% for the year). Mr. Brakebill detailed the key components that created the decline in performance of the portfolio. He noted U.S Equities were down 7.6% for the quarter, International Developed Equities were down 3.5% for the year, and International Emerging Markets were down 16% from the prior quarter. Mr. Brakebill identified the top three performers of the portfolio; Fixed Income was up 4.15% for the year, Real Estate was up 13.5% for the year, and Private Equity was up 21% for the year. Mr. Brakebill discussed the performance of the portfolio as of December 11, 2015. Mr. Brakebill acknowledged that the portfolio has improved since the September report as the TCRS portfolio current value is \$42.1B, which reflects a year-to-date performance of -1.6% (2.6% increase from the September report). He also mentioned the overall allocation of the portfolio remained the same.

Mr. Brakebill discussed how moving into a rate hike cycle always seems to create a tantrum in the market ahead of the official announcement, which is important because the Federal Reserve interest rate hike for next week is virtually certain. In the past, the volatility before the announcement has scared the Federal Reserve away from increasing interest rates, but it appears the Fed will proceed. The strongest factor supporting an interest rate hike is the improving labor

market. The key rationale for not raising rates today is that manufacturing activity in the United States and internationally is declining. If the rates do rise, Mr. Brakebill believes that rates will continue to increase over time in a steady process.

Mr. Brakebill continued with comments regarding process changes. He noted the Private Equity and Strategic Lending consulting relationship has been successfully transitioning from Cambridge to TorreyCove. TCRS has also decided to continue using Strategic Investment Solutions as the general investment consultant. Mr. Brakebill mentioned how staff has been implementing a portfolio and relationship management software tool called eFront for the Real Estate, Private Equity, and Strategic Lending Portfolios. Last, he noted the Treasury Managed Fund has had great participation and allows Defined Contribution Plan participants to invest directly in the pension plan.

Other Business

Chairman Lillard encouraged members to review and sign the conflict of interest form that was adopted during the meeting. Chairman Lillard announced upcoming meetings and board training sessions. He also stated the actuary report will be reviewed at the January 29, 2016 meeting and the administrative, audit, and investment committees will meet as well.

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 Chairman Lillard and seconded by Mr. Wilson, the Board unanimously approved the TCRS Board of Trustees meeting be adjourned.

With no other business, the Board of Trustees adjourned at 10:40 a.m. on December 11, 2015.

Respectfully Submitted,



Jill Bachus
Director, TCRS

Approved:



David H. Lillard, Jr.
Chairman of the Board