

## **Minutes of the TCRS Board of Trustees meeting on September 30, 2016**

The Board of Trustees of the Tennessee Consolidated Retirement System met on Friday, September 30, 2016 at 10:05 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 of the Treasury; Mr. Tre Hargett, Secretary of State; Ms. Jill Bachus, Director of TCRS; Mr. Michael Barker, Mr. Bill Kemp, Mr. Harold Morrison, Mr. Kevin Fielden, Mr. Ken Wilber, Mr. Alfred Laney, Ms. Patsy Moore, Mr. Edward Taylor, Ms. Vicki Burton, and Mr. Paul Varble.

### **TCRS Board of Trustees Appointments**

Chairman Lillard welcomed and introduced the new state employee representatives Ms. Vicki Burton and Mr. Ed Taylor, and the new public safety representative Mr. Paul Varble. He noted that Mr. Michael Barker, Mr. Kevin Fielden, and Mr. Alfred Laney were reappointed for another term to the TCRS Board of Trustees.

### **Approval of the June 24, 2016 Minutes of the Board of Trustees**

On a motion by Mr. Kemp and seconded by Mr. Barker, the minutes of the June 24, 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 committee discussed the political subdivisions seeking participation in TCRS. An operations update on TCRS was provided along with an update on the actuarial valuation.

Chairman Lillard recognized Mr. Barker to review the audit committee report. Mr. Barker mentioned the committee approved the minutes from the previous meeting. The audit committee reviewed the fiscal year 2015 auditors' report which indicted no findings. Mr. Barker mentioned the state audit engagement letter was signed by the Treasurer. The committee reviewed several reports.

Chairman Lillard provided the investment committee report. Chairman Lillard briefly noted the investment committee meeting included the approval of one private equity transaction and a review of other previously approved transactions.

### **Investment Report**

Mr. Michael Brakebill was asked to review the investment performance of fiscal year 2016. He introduced Ms. Margaret Jadallah, who is the lead General Consultant from Verus and Mr. Jeff McLean, who is the CEO of Verus.

Ms. Jadallah reviewed the Fiscal Year 2016 results and discussed the Verus five-year asset allocation review, which will be considered by the Board at a future meeting. From a macro standpoint, 2016 was marked by heightened volatility and low interest rates. TCRS returns are in the top 6% of similar funds for the fiscal year and are generally in the top quartile for most measurement periods. Private equity, real estate, and fixed income were the key drivers of this performance. Staff and Verus have worked together to review the international equity manager line-up and are in the final stages of engaging a number of new fund managers. The overall risks going forward to TCRS are rising interest rates and market uncertainty.

Mr. Brakebill noted that the absolute return environment was challenging and the plan underperformed the policy benchmark. However, TCRS performed very well compared to public and private plan peers. The TCRS plan returns beat 79% of its peers on a three-year basis and 87% on a five-year basis and the comparison was more flattering on a risk-adjusted basis. He walked through each asset class and explained staff management efforts, which included any likely structural changes in the near future. Notable changes include an expansion of the number of external managers for international developed equities to reduce operational risk, gain diversity, and improve performance.

Switching to a macro view, Mr. Brakebill noted the nominal GDP growth rate is a good approximation for top-line corporate revenues. With low inflation and low real GDP growth, the global economy is not strong enough to support higher interest rates. In addition, growth was negatively affected by the rise in the dollar. Many leading indicators are mixed regarding the economy and employment indicators continue to show strength, while consumption and investment appear weaker.

### **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 Crockett County Emergency Communications District, Cumberland County Emergency Communications District, LaGuardo Utility District, Brentwood Emergency Communications District, Cannon County Emergency Communications District, Joint Economic and Development Board of Wilson County, Millington Airport Authority, Obion County Library, and Putnam County Library. Ms. Bachus mentioned the Brentwood Emergency Communications District, Cannon County Emergency Communications District, Joint Economic and Development Board of Wilson County, Millington Airport Authority, Obion County Library, and Putnam County Library are the result of employers misreporting employees to TCRS. The employers were standalone entities that were reporting their employees through the city or county, but should have been reporting to TCRS separately. Ms. Bachus noted all of the entities are eligible to participate into TCRS.

On a motion by Ms. Bachus and seconded by Mr. Wilber, the Board unanimously approved the requests for participation in TCRS for the Crockett County Emergency Communications District, Cumberland County Emergency Communications District, LaGuardo Utility District, Brentwood Emergency Communications District, Cannon County Emergency Communications District, Joint Economic and Development Board of Wilson County, Millington Airport Authority, Obion County Library, and Putnam County Library.

### **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. Mr. Morrison 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. Wilson and seconded by Mr. Kemp, the Board unanimously approved the TCRS Board of Trustees meeting be adjourned.

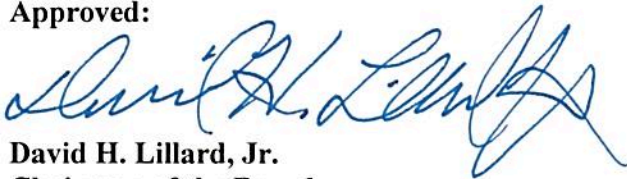
With no other business, the Board of Trustees adjourned at 10:55 a.m. on September 30, 2016.

**Respectfully Submitted,**



**Jill Bachus  
Director, TCRS**

**Approved:**



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

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