

Minutes of the TCRS Board of Trustees meeting on December 12, 2014

The Board of Trustees of the Tennessee Consolidated Retirement System met on Friday, December 12, 2014 at 10:10 a.m. The meeting was held in Room 30 of the Legislative Plaza with Chairman David Lillard presiding.

Chairman Lillard announced that Mr. Jamie Wayman, Assistant Director of TCRS, was the acting secretary for the meeting.

Chairman Lillard asked Mr. Wayman to conduct an attendance roll call. The following members were present: Chairman David Lillard, State Treasurer; Commissioner Rebecca Hunter, Department of Human Resources; Mr. Michael Barker, Ms. Patsy Moore, Mr. Bill Kemp, Mr. Ken Wilber, Mr. Harold Morrison, Mr. Kevin Fielden, Ms. Angie Judish, Mr. Alfred Laney, Mr. Bob Wormsley, and Mr. Charles Archer.

Approval of the September 26, 2014 Minutes of the Board of Trustees

On a motion by Mr. Wilber and seconded by Mr. Laney, the minutes of the September 26, 2014 TCRS Board of Trustees meeting were unanimously approved.

Audit Committee Appointment

Chairman Lillard recommended Mr. Charles Archer be appointed to the audit committee.

On a motion by Mr. Barker and seconded by Mr. Kemp, the Board unanimously approved Mr. Archer's appointment to the audit committee.

Board of Trustees Committee Reports

Chairman Lillard recognized Mr. Barker to provide the audit committee report. Mr. Barker mentioned the audit committee received an update on the Concord System. He noted that Ms. Britt Wood is assisting with the audit of the system. The audit committee also reviewed the private equity disclosure listing.

Chairman Lillard recognized Mr. Jamie Wayman to review the administrative committee report. Mr. Wayman stated that Mr. Fred Marshall provided an update on the Concord system. The administrative committee discussed employer reporting in Concord. Mr. Wayman mentioned 97% of employers have reported by the December 10, 2014 deadline. In addition, the committee was provided an update on retirement applications being processed. An update on GASB Standards 67, 68, and 71 was provided. The administrative committee also reviewed the political subdivisions requesting membership in TCRS.

Chairman Lillard reviewed the investment committee meeting. Chairman Lillard mentioned the investment committee considered and approved several real estate and strategic lending transactions. The committee also reviewed a presentation on the private equity portfolio and a real estate strategic overview.

Investment Report

Mr. Brakebill introduced Mr. Patrick Thomas from Strategic Investment Solutions to address both trends in the global capital markets and the TCRS portfolio. Mr. Thomas began by discussing global market trends, highlighting the strengthening US economy despite slow growth in Europe and economic contraction in Japan. Increasing volatility was addressed, with emphasis on the precipitous decline in oil prices over recent months. From an asset class perspective, small capitalization US equities have lagged large capitalization equities by a wide margin. Furthermore, both developed and emerging market equities have lagged US equities by a substantial margin.

Regarding the TCRS portfolio, Mr. Thomas noted a return of 11.3% over the trailing year. Lower exposure to non-US equities and a bond portfolio with higher quality characteristics and a longer duration than peers contributed to strong performance in relation to peers. The US equity portfolio outperformed its benchmark by 0.81% over the trailing year in a very difficult environment for active management. While the international equity portfolio underperformed its benchmark over the trailing year by 0.39%, excess returns exceeding 2% over a trailing 10-year horizon remain remarkable. US fixed income outperformed its benchmark by 0.67% over the trailing year, with higher quality and duration contributing to strong performance. The total returns posted by TCRS over the trailing year are in the top 5% of the peer group.

Mr. Brakebill then addressed several key initiatives. On the personnel front, Mr. Bill Abney is retiring at the end of the year, and recruiting is ongoing for roles in both fixed income and real estate. As for process, the custodial transfer that took place in early September continues to require efforts from TCRS staff. Three requests for proposal are being generated for a private equity consultant, a CRM / portfolio management software provider for the private equity, real estate and strategic lending programs, and for the generalist consultant. Efforts are being expended to provide more flexibility to the process for selecting and engaging international equity managers. Furthermore, the TCRS investment policy is undergoing a significant overhaul, albeit without any substantial changes to the investment strategy. Noteworthy initiatives in the investment policy overhaul include private equity benchmarking, a modest increase in the exposure to non-core real estate, and the process for alternative investment approval. Mr. Brakebill then addressed efforts expended for the unitization of the TCRS portfolio as an option for the defined contribution plan as well as for the hybrid plan. Finally, a solid start for the securities lending program, which began in February, was noted.

Regarding the portfolio's tactical asset allocation, the asset class weightings have been relatively close to the strategic benchmarks. The overweight of US equities to international equities has been a positive for performance, as has the overweight to US fixed income versus TIPS.

Mr. Brakebill then discussed recent capital market activity at a high level. Notably, the equity and fixed income markets have become disjointed of late with bond yields falling and equities continuing to perform well. Overall, US economic growth appears to be progressing well, while Europe's economy has softened after more encouraging developments earlier in the year. Softness in commodities such as oil, copper, and iron ore were also discussed in the context of a slowing Chinese economy. Finally, the strength of the US dollar was addressed.

As of December 11, 2014, the total value of the TCRS portfolio stood at \$42.7 billion.

Political Subdivisions Petitioning for Membership in TCRS

Mr. Wayman advised the Board that the administrative committee had reviewed the request for participation in TCRS for the Town of Vanleer.

On a motion by Mr. Wormsley and seconded by Mr. Barker, the Board unanimously approved the request for participation in TCRS for the Town of Vanleer.

Mr. Wayman advised the Board that the administrative committee had reviewed the request for participation in TCRS for Russellville-Whitesburg Utility District.

On a motion by Mr. Wormsley and seconded by Mr. Barker, the Board unanimously approved the request for participation in TCRS for Russellville-Whitesburg Utility District.

Other Business

Chairman Lillard advised the Board of Mr. Bill Abney's retirement. Chairman Lillard thanked Mr. Abney for all his service to the investment division and Treasury Department. Chairman Lillard noted there will not be a training session after the Board meeting due to the holiday season.

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 Commissioner Hunter and seconded by Mr. Laney, the Board unanimously approved the TCRS Board of Trustees meeting be adjourned.

With no other business, the Board of Trustees adjourned at 11:00 a.m. on December 12, 2014.

Respectfully Submitted,



**Jill Bachus
Director, TCRS**

Approved:



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