

## **Minutes of the TCRS Board of Trustees Meeting on June 28, 2019**

The Board of Trustees of the Tennessee Consolidated Retirement System met on Friday, June 28, 2019 at 10:08 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; Mr. Tre Hargett, Secretary of State; Ms. Deborah Tate, Administrative Director of the Courts; Commissioner Stuart McWhorter, Department of Finance and Administration; Mr. Michael Barker, Mr. Bob Wormsley, Mr. Paul Varble, Mr. Ed Taylor, Mr. Alfred Laney, Ms. Patsy Moore, Mr. Timothy Ellis, Mr. Bill Kemp and Mr. Kevin Fielden.

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

Chairman Lillard mentioned that Mr. Kevin Fielden, Mr. Paul Varble, and Mr. Ed Taylor terms expired June 30, 2019.

### **Approval of the March 29, 2019 Minutes of the Board of Trustees**

On a motion by Ms. Tate and seconded by Mr. Laney, the minutes of the March 29, 2019 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 there are five political subdivisions seeking participation into TCRS. He mentioned that Ms. Ashley Nabors provided an update on new petitions for participation into retirement as well as transfers. She also provided statistics on customer service. Ms. Erica Nale provided an update on retirement applications being processed. TCRS has received 2,500 applications within the quarter which is above average.

Chairman Lillard recognized Mr. Baker to review the administrative committee report. Mr. Baker mentioned the audit committee approved minutes from the March meeting. Mr. Earle Pierce provided a report on various audit activities. The committee also reviewed the audit plan that was approved for 2019-2020 and there were no reports from the Comptroller's Hotline. Mr. Baker reviewed a report that was shared by Chairman Lillard from Pew Charitable Trust. Mr. Baker noted from the report that Tennessee, Wisconsin and South Dakota are the states with the best funded pension plan that successfully weathered the recession for two reasons: they made full actuarial contributions in good financial times and bad and they followed sound risk management policies that allow them to weather the volatility of investment and other risks. Information was provided to the members for review.

Chairman Lillard provided the investment committee report. Chairman Lillard mentioned the committee authorized a disposition transaction and they received reports from various individuals involved in our investment functions.

## Investment Report

Chairman Lillard called on Mr. Michael Brakebill to give an overview of the Investment Report. Mr. Brakebill reviewed the Verus quarterly report, beginning with an economic update that highlighted forecasted 2019 GDP growth and noted that trade negotiations between the US and China had resumed. Mr. Brakebill then noted that key economic data points are generally in line with a solid outlook for economic growth.

Mr. Brakebill discussed the ten-year market returns, noting the significance of being ten years since the absolute bottom of the financial crisis. Strong recovery can be seen across US equities, which has produced a 16.0% 10-year return while international stocks have not had the same rate of recovery. Mr. Brakebill continued by noting the limited growth across fixed income index returns. As of March 31, 2019, the total portfolio produced a 9.9% 10-year return, a 6.8% 5-year return, an 8.5% 3-year return, and a 4.6% 1-year return.

Mr. Brakebill then noted the strong rebound in performance during the quarter. While the December quarter was challenging, a significant rebound occurred in March with the total fund appreciating by 7.5% and adding \$4.3 billion to the fund net of benefit payments in the quarter. He mentioned the large-cap equity overlay program added 24 basis points over the 1-year period and stated external international equity managers are performing well. The total fund's US fixed income portfolio produced a 6.4% return over the 10-year period, compared to the fixed income aggregate index of 3.8%. Mr. Brakebill then highlighted real estate performance, noting long-term returns have been strong, with the 5-year return producing a 10.2% return. He then discussed the strong returns for private equity, up 16.7% over the trailing 1-year return. Mr. Brakebill then reviewed the strategic lending portfolio, noting the portfolio is performing in line with expectations.

Mr. Derrick Dagnan then gave an overview of staff projects that were completed during the fiscal year including the addition of four new portfolios, improved liquidity analysis and monitoring processes, incentive compensation plan update, a renewal of the master custodian contract and an update to the investment policy. Asset class specific projects completed include the selection of a fixed income analytics system and renewal of the real estate consultant contract, along with the addition of secondary sale capabilities for alternative assets.

Ms. Deborah Taylor-Tate raised a question around the lower real estate returns in the shorter time horizons compared to higher returns for longer time periods. Mr. Brakebill replied that we are investing in a high valuation environment which means forward looking returns are likely to be modest across nearly all portfolios compared to their respective ten-year return. The real estate portfolio, over the long term, is expected to return 5-7% but has enjoyed a tailwind since the financial crisis. Ms. Taylor-Tate also thanked the members of TCRS as the Pew Charitable Trust recently mentioned in an article that TCRS' high funding ratio is a result of maintaining quality investment policies including risk and cost, in addition to making 100% of required contributions to the plan. The Treasurer replied that it is the result of a team effort from all members of TCRS, involving wise decision making and a legislature that understands the importance of the financial health of the plan.

## **Political Subdivision 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 into TCRS for the City of Celina, City of Eagleville, City of South Fulton, South Giles Utility District and Upper Cumberland Local Workforce Development Board, Inc. Mr. Wayman mentioned the City of Celina, City of Eagleville and City of South Fulton selected to participate in the hybrid plan without cost control. The employer rate for City of Celina and South Fulton is 1.1% of payroll with employees contributing 5%. City of Eagleville elected not to have employees contribute and their rate is 5.9%. South Giles Utility District and Upper Cumberland Local Workforce Development Board, Inc. selected the legacy defined benefit plan and they elected to have their employees contribute 5% and the employer rate for both is 6.5%. Mr. Wayman mentioned the administrative committee recommended for all entities seeking participation into TCRS to be approved going into effect July 1, 2019.

On a motion by Mr. Wayman and seconded by Mr. Wormsley, the Board unanimously approved the request for participation into TCRS for the City of Celina, City of Eagleville, City of South Fulton, South Giles Utility District and Upper Cumberland Local Workforce Development Board, Inc.

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

With no other business, the Board of Trustees adjourned at 10:48 a.m. on June 28, 2019.

**Respectfully Submitted,**

**/s/Jamie Wayman**  
**Jamie Wayman**  
**Director, TCRS**

**Approved:**

**/s/David H. Lillard, Jr. 9/26/2019**  
**David H. Lillard, Jr.**  
**Chairman of the Board**