

## **Minutes of the TCRS Board of Trustees meeting on March 18, 2016**

The Board of Trustees of the Tennessee Consolidated Retirement System met on Friday, March 18, 2016 at 10:06 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; Ms. Deborah Tate, Administrative Director of the Courts; Mr. Michael Barker, Mr. Bill Kemp, Mr. Harold Morrison, Ms. Angie Judish, Ms. Shannon Jones, Mr. Bob Wormsley, Mr. Kevin Fielden, Mr. Ken Wilber, and Ms. Patsy Moore.

### **Approval of the February 26, 2016 Minutes of the Board of Trustees**

On a motion by Chairman Lillard and seconded by Mr. Kemp, the minutes of the February 26, 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 reviewed the board policy for the election of the state employee representatives. In addition, Ms. Bachus indicated the committee discussed TCRS serving as a third party administrator for non-TCRS defined benefit plans. The committee also reviewed the City of Lenoir City request for participation in TCRS. An update on Concord was provided, the committee discussed the new financial statement presentation, and an update on retirement operations.

Chairman Lillard recognized Mr. Barker to review the audit committee report. Mr. Barker mentioned the committee reviewed two action items: the approval of the June 26, 2015 minutes and the audit committee charter. The committee reviewed additional items such as the Treasury Department Standards of Professional Conduct, Investment Division Code of Ethics, and TCRS analytics update. The committee was provided with an update on Concord and they also reviewed internal audit reports, private equity disclosure listings, and the control culture and tones set by top management.

Chairman Lillard provided the investment committee report. Chairman Lillard mentioned Mr. Brakebill reviewed the investment report and Mr. Barry Dennis reviewed the executive summary report. The committee approved various transactions and reviewed notification transactions approved by Chairman Lillard.

### **Investment Report**

Chairman Lillard introduced Mr. Barry Dennis with Verus, the TCRS investment consultant, to review the executive performance summary report. Mr. Dennis reported on the investment performance for the fourth quarter and the year. He also gave a brief overview of the market,

detailing how difficult it was to create meaningful returns for 2015. This was illustrated through the returns of many pension funds across the country. For the fourth quarter of 2015, TCRS had a return of 2.5% versus its policy benchmark of 2.4%. For the 2015 calendar year, TCRS outperformed the policy benchmark by 54 basis points, which is equivalent to over \$200 million in taxpayer savings in future contributions. For the 5 year returns, TCRS returned 7.74%, which is in the 32<sup>nd</sup> percentile. Mr. Dennis explained how TCRS has not only maintained strong returns for the 5 year period, but utilized less risk at the same time. Mr. Dennis commended the TCRS staff for managing the pension fund of \$42 billion effectively and saving the taxpayers by not paying external manager fees to help run a majority of the assets in the portfolio.

Next, Mr. Brakebill described how recruiting has been underway to fill a couple of openings within the Investment Division of TCRS. Mr. Brakebill then addressed how TCRS has been working on custodial service requirements and how to improve the deliverables from State Street with the Accounting Division. Next, Mr. Brakebill discussed how there were three items on the agenda for the legislative initiative: improving policy and legal alignment with Dodd-Frank, eliminating the Sunset provision for the Strategic Lending Portfolio, and increasing the maximum allocation for illiquid asset classes.

Mr. Brakebill next discussed the Securities Lending Program: TCRS lends securities out to investors who have short-sell the securities in exchange for income. Fiscal year-to-date, the Securities Lending Program has produced \$22.6 million. Mr. Brakebill then addressed how TCRS has been monitoring the Treasury Managed Fund, which is an investment option in the 401(k) plan that is a mirror image of the pension fund. The Treasury Managed Fund has been in effect since July 1, 2015 and TCRS has experienced a smooth introduction of this option in the defined contribution plan.

Mr. Brakebill then moved into the portfolio performance. The current value of the portfolio is \$42.2 billion compared to the June 30, 2015 market value of \$43.2 billion. The drop in value is related to benefit payments and a 0.49% total return during the first half of the fiscal year. The performance of the portfolio has increased substantially since mid-February when the value of the portfolio dropped to \$39.5 billion and has since recovered. Lastly, Mr. Brakebill mentioned the portfolio is still underweight in US stocks, Canada, and emerging markets.

### **Actuarial Valuation Presentation**

Chairman Lillard introduced Mr. Justin Thacker from Bryan, Pendleton, Swats, and McAllister to review the actuarial valuation presentation on the Hybrid plan. Mr. Thacker noted the purpose of the actuarial valuation is to determine employer contribution rates for the defined benefit component of the Hybrid plan and examine the financial health of the plan. The actuarial valuation for the Legacy plan was presented to the Board at its last meeting. He also mentioned that there is a separate process and reporting for GASB 67/68 information.

As determined by the July 1, 2015 actuarial valuation, the employer actuarially determined contribution (ADC) rate for the Hybrid plan will be as follows: for the state general employees the rate will be 1.13%, the public safety bridge rate will be .75%, state judges rate will be 6.27% and the rate for teachers will be 1.56%. The overall total weighted average employer rate will be

4.00%. The total employer contribution rate will be broken down as follows: the state general employee rate will be 3.94%, the public safety bridge rate will be .75%, state judges rate will be 6.27%, and the rate for teachers will be 4.00%. The new employer contribution rates will go into effect July 1, 2016.

On a motion by Comptroller Wilson and seconded by Mr. Barker, the Board unanimously approved the new employer contribution rates.

Chairman Lillard recognized Mr. Kemp for a question. Mr. Kemp asked how many political subdivisions have adopted the Hybrid plan. Ms. Bachus responded that 10 political subdivisions are participating in the Hybrid plan. Mr. Kemp noted that the new political subdivisions coming into TCRS have the option of joining the Hybrid or Legacy plan.

### **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 the City of Lenoir City.

On a motion by Mr. Wormsley and seconded by Mr. Wilber, the Board unanimously approved the request for participation in TCRS for the City of Lenoir City.

### **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 Alcoa is seeking to have TCRS be the third party administrator for their closed defined benefit plan. 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 Alcoa closed pension plan effective April 1, 2016.

On a motion by Mr. Morrison and seconded by Mr. Wilber, the Board unanimously approved the third party administration of the closed City of Alcoa pension plan.

### **Board Policy**

Ms. Bachus reviewed a proposed Board policy. The policy is to define that TCRS will handle the election of state employee representatives to the Board of Trustees in the most efficient matter practicable, including using electronic voting system, and to document the process used in the election. The administrative committee reviewed the policy related to the election of the state employee representatives and recommends approval.

On a motion by Mr. Barker and seconded by Chairman Lillard, the Board approved the Board policy on a 13-1 vote.

**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. Wormsley, 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 March 18, 2016.

**Respectfully Submitted,**



**Jill Bachus  
Director, TCRS**

**Approved:**



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