

Minutes of the TCRS Board of Trustees meeting on June 24, 2016

The Board of Trustees of the Tennessee Consolidated Retirement System met on Friday, June 24, 2016 at 10:12 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. Tre Hargett, Secretary of State; Ms. Jill Bachus, Director of TCRS; Ms. Deborah Tate, Administrative Director of the Courts; Commissioner Rebecca Hunter, Department of Human Resources; Mr. Michael Barker, Mr. Bill Kemp, Ms. Angie Judish, Ms. Shannon Jones, Mr. Bob Wormsley, Mr. Kevin Fielden, Mr. Ken Wilber, Ms. Patsy Moore, Mr. Tony Crisp, and Mr. Alfred Laney.

TCRS Board of Trustees Appointments

Chairman Lillard thanked Ms. Shannon Jones, Ms. Angie Judish and Mr. Tony Crisp for their service to TCRS on the Board of Trustees. Additionally, Chairman Lillard noted that Mr. Michael Barker and Mr. Kevin Fielden were reappointed for another term to the TCRS Board of Trustees.

Approval of the March 18, 2016 Minutes of the Board of Trustees

On a motion by Mr. Wilber and seconded by Ms. Tate, the minutes of the March 18, 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 three political subdivisions seeking participation into TCRS. An update on Concord was provided. The committee discussed erroneously reported employees in TCRS, reviewed legislation that was recently enacted, discussed operations in TCRS, and the GASB 68 information provided to employers.

Chairman Lillard recognized Mr. Barker to review the audit committee report. Mr. Barker mentioned the committee reviewed the private equity disclosure list and the finalization on a couple items from the Comptroller's hotline. The items were found to be in compliance and now considered completed.

Chairman Lillard provided the investment committee report. Chairman Lillard reviewed several investment opportunities for the fund and action was taken. The committee received updates about approved transactions from staff. There was also general discussion about investments in the TCRS.

Investment Report

Treasurer Lillard introduced Mr. Michael Brakebill, Chief Investment Officer, to review the investment report. Mr. Brakebill reviewed the General Consultant's Fiscal Third Quarter 2017 Performance Report, and the Staff's Quarterly Performance Report. Mr. Brakebill highlighted a 3% fiscal year-to-date return as of yesterday's close, but noted that he expected the total portfolio to be down 1% in the near term following the impact of the United Kingdom's vote to leave the European Union. The current underweight to equities should mitigate this movement to some degree and will be adding to exposure on the pullback.

Mr. Brakebill then discussed the organization chart and new hires; Mr. Jacob Percy, Mr. Jeff Dunn, and Mr. David Bradbury. In addition, he mentioned the retirement of Mr. Michael Moulder, who had served TCRS for over 30 years and who covered utilities and staples for the Equities group.

Next, Mr. Brakebill described the emerging markets screening process, which attempts to broadly track the MSCI Emerging Markets index, but excludes corrupt and non-democratic countries. Specifically, the process excludes countries such as China, Russia, and Egypt. In addition, Mr. Brakebill noted that a search for new International Equities managers is in process.

Mr. Brakebill then mentioned the preliminary strategic review performed by Verus, which includes their capital markets, risk, and return expectations for various asset classes. He also discussed the challenges associated with accurate forecasting and mentioned that the entire staff had completed a learning study focused on forecasting during the quarter.

Mr. Brakebill identified some of the key economic and market factors that have impacted the portfolio performance year to date. Today, the current value of the portfolio is \$43.2 billion compared to the June 30, 2015 market value of \$43.2 billion. The performance of the private equity portfolio has been better than expected due to less of a J-Curve effect and has beaten the benchmark of S&P + 3% by another 3% since inception. Mr. Brakebill then discussed how international equities had a rough period of absolute returns, though the portfolio managers did a good job on a relative basis.

Mr. Brakebill commented on the overall portfolio performance, noting that while the plan has outperformed peers, the total return has lagged the benchmark by 55 basis points on a fiscal year-to-date basis. The key driver of this underperformance was poor relative performance for domestic equities. Staff is taking significant steps to improve the domestic equity portfolios. Next, Mr. Brakebill moved to a discussion of the markets and the global economy. He mentioned the large disparity of returns in asset classes and the impact of interest rates on the yield curve and the outperformance of long-dated Treasuries and real assets. With respect to equities, the market has experienced significant volatility and returns exhibit significant disparity by both region and domestic sectors. From an economic standpoint, the world is entering the third straight year of low GDP growth projections at a time of historically low interest rates and relatively high asset valuations. These factors combined portend modest future returns for markets.

Lastly, Mr. Brakebill discussed the overall asset allocation and the near-term intent to reduce the underweight to equities following the Brexit sell-off.

Political Subdivisions Petitioning for Membership in TCRS

Ms. Bachus advised the Board that the administrative committee had reviewed the request for participation in TCRS for the McMinn County Emergency Communications District, Old Knoxville Highway Water District, and Walden's Ridge Utility District.

On a motion by Ms. Bachus and seconded by Mr. Wormsley, the Board unanimously approved the request for participation in TCRS for the McMinn County Emergency Communications District, Old Knoxville Highway Water District, and Walden's Ridge Utility District.

Legislation Summary

Chairman Lillard mentioned a summary of 2016 enacted legislation was provided for the members to review.

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. Barker and seconded by Ms. Hunter, the Board unanimously approved the TCRS Board of Trustees meeting be adjourned.

With no other business, the Board of Trustees adjourned at 10:50 a.m. on June 24, 2016.

Respectfully Submitted,



Jill Bachus
Director, TCRS

Approved:



David H. Lillard, Jr.
Chairman of the Board

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