

Minutes of the TCRS Board of Trustees meeting on March 31, 2017

The Board of Trustees of the Tennessee Consolidated Retirement System met on Friday, March 31, 2017 at 10:17 a.m. The meeting was held in the Nashville Room of the Tennessee Tower 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. Justin Wilson, Comptroller of the Treasury; Mr. Tre Hargett, Secretary of State; Mr. Jamie Wayman, Director of TCRS; Ms. Deborah Tate, Administrative Director of the Courts; Mr. Michael Barker, Mr. Bill Kemp, Mr. Harold Morrison, Mr. Bob Wormsley, Mr. Kevin Fielden, Mr. Ken Wilber, Ms. Patsy Moore, Mr. Paul Varble, Ms. Vicki Burton, and Mr. Edward Taylor.

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

On a motion by Mr. Wilson and seconded by Ms. Tate, the minutes of the November 18, 2016 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 the committee reviewed the political subdivisions requests for participation in TCRS and the qualified employee benefit arrangement trust document. An update on the audit report and retirement operations was provided.

Chairman Lillard recognized Mr. Barker to review the audit committee report. Mr. Barker mentioned that Mr. Taylor was appointed to the committee and new Treasury staff Ms. Patricia Rothschild and Ms. Anne Carlisle were introduced at the committee meeting. The committee approved minutes from the previous audit committee meeting, and the audit and financial statements were approved. Mr. Barker mentioned the committee reviewed the risk assessments report and private equity disclosure report. Mr. Barker noted no submission was reported on the Comptroller hotline.

Chairman Lillard provided the investment committee report. Chairman Lillard mentioned the committee approved several transactions. The committee reviewed the executive summary report from Ms. Margaret Jadallah and Mr. Brakebill provided an overview on the general market conditions.

Investment Report

Chairman Lillard called on Mr. Michael Brakebill to give an overview of the Investment Report. Mr. Brakebill first introduced Ms. Margaret Jadallah, Senior Consultant with Verus, to give a brief overview of the economic and investment landscape as well as the TCRS portfolio updates and performance. Ms. Jadallah began by discussing the continuing themes from 2016 of low bond yields and outperformance of equities in the financial and energy sectors. The equity market had a full year return of 12% combined with a strong U.S. Dollar. The first quarter of 2017 showed moderation as investors realize that transforming the new political agenda into

finalized policies and laws will take more time. Ms. Jadallah then focused on the new allocations in TCRS related to alternative investments. She highlighted performance that was in line or above peers, specifically the private equity portfolio which outperformed. She also focused on the Equity Quant Fund, which implemented model adjustments to improve performance and is now on track. Finally, Ms. Jadallah briefly discussed the Fixed Income Portfolio. She highlighted strong performance in the Strategic Lending Portfolio, specifically high yield, and pointed out the rotation from high yield into leveraged loans.

Mr. Brakebill then reviewed some personnel changes in the group including the hiring of Ms. Neha Sakaria to manage the MBS portfolio. He then discussed two of the largest impacts to the investment portfolio this year. One is a more concentrated approach toward increasing allocations to the private equity and other alternative assets. Second is a new external manager selection process, which streamlines the review process and creates a need for new and improved relationships with transition managers. Then, Mr. Brakebill reviewed the tactical and strategic allocations of the portfolio. The portfolio had an overweight in U.S. stocks due to strong performance through the end of the year. Since year end, the Portfolio was rebalanced and the overweight was reduced by moving \$900 million from equities into bonds.

Political Subdivisions Petitioning for Membership in TCRS

Mr. Wayman advised the Board that the administrative committee had reviewed the requests for participation in TCRS for the Town of Bruceton, the Dickson County Emergency Communications District, the Johnson City Energy Authority, and the Lenior City Housing Authority. The Town of Bruceton, Johnson City Energy Authority, and Lenior City Housing Authority selected the Legacy Pension Plan. The Dickson County Emergency Communications District selected the alternate defined benefit plan.

On a motion by Mr. Wormsley and seconded by Mr. Barker, the Board unanimously approved the requests for participation in TCRS for the Town of Bruceton, Dickson County Emergency Communications District, Johnson City Energy Authority, and Lenior City Housing Authority.

Qualified Employee Benefit Arrangement Trust (QEBA)

Chairman Lillard introduced Ms. Alison Cleaves to review the qualified excess benefit arrangement trust (QEBA). Ms. Cleaves mentioned a retiree's benefit cannot exceed a certain limit set by the Internal Revenue Service. If the benefits should exceed the limit it must come out of a trust separate and distinct from the TCRS trust. That separate and distinct trust is a QEBA trust. The employer will put the excess benefit amount into the QEBA and that excess amount will be paid to the retiree.

On a motion by Chairman Lillard and seconded by Mr. Wilber, the Board unanimously approved the qualified excess benefit arrangement trust.

Actuarial Valuation Presentation

Chairman Lillard introduced Mr. Justin Thacker from Bryan, Pendleton, Swats, and McAllister to review the actuarial valuation presentation on the State and Teacher Hybrid Plan. Mr. Thacker noted the purpose of the actuarial valuation is to determine employer contribution rates

for the defined benefit component of new Hybrid plan and to examine financial health of the plan. He also mentioned that there is a separate process and reporting for GASB 67/68.

As determined by the June 30, 2016 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 1.29%; the public safety bridge will be .85%, state judges will be 6.77% and the rate for teachers will be 1.63%. 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 .85%, state judges rate will be 6.77%, and the rate for teachers will be 4.00%. The new employer contribution rates will go into effect July 1, 2017.

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

Executive Committee

Chairman Lillard mentioned the executive committee met on December 12, 2016 and January 23, 2017. He noted the committee approved various action items at each meeting. Chairman Lillard mentioned material was provided for Board 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. 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 11:25 a.m. on March 31, 2017.

Respectfully Submitted,



**Jamie Wayman
Director, TCRS**

Approved:



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