

Minutes of the TCRS Board of Trustees meeting on June 23, 2017

The Board of Trustees of the Tennessee Consolidated Retirement System met on Friday, June 23, 2017 at 10:05 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. Jamie Wayman, Director of TCRS; Ms. Deborah Tate, Administrative Director of the Courts; Commissioner Rebecca Hunter, Department of Human Resources; 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, Mr. Edward Taylor, and Mr. Alfred Laney.

Approval of the March 31, 2017 Minutes of the Board of Trustees

On a motion by Mr. Wilber and seconded by Ms. Tate, the minutes of the March 31, 2017 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 political subdivisions seeking participation in TCRS and reviewed proposed rules for correction of participant errors. Mr. Wayman provided a legislation update and Ms. Erica Nale provided an update on TCRS operations. GASB information was provided and the new employer rates were discussed.

Chairman Lillard recognized Mr. Barker to review the audit committee report. Mr. Barker mentioned the committee approved the March minutes. The committee reviewed internal audit report pertaining to the private equity audits. The audit committee also reviewed the audit project schedule, audit plan results, and the private equity disclosure information. No action on the Comptroller Hotline was reported and Mr. Wayman provided an update on the proposed rules.

Chairman Lillard provided the investment committee report. Chairman Lillard mentioned the committee approved several investment transactions. The committee reviewed some data in regards to the real estate investments. A review on Verus about the performance summary was provided and the committee discussed market conditions.

Investment Report

Chairman Lillard called on Mr. Brakebill to give an overview of the investment report. Mr. Brakebill reviewed the Verus Executive Summary Report, which showed positive returns despite low interest rates and high equity valuations. Mr. Brakebill stated that the plan had a current balance of \$47.3 billion year to date, with a year to date return of 11.5%. Overall, Mr. Brakebill

expects TCRS's net of fees returns to be higher than its peers because its fees are low compared to externally managed pension fund fees of 25 to 50 basis points.

The total fund return year to date is 11.5% which has lagged peers because of a lower risk of asset allocation. Although the quant fund struggled last year, the team has adjusted the portfolio and performance has improved. The Sector Fund also continues to see improvement and returned 17.8% versus the S&P return of 17.2%. The Small Cap Passive Portfolio contains \$900 million, which is a bit more than 2% of the entire fund and it has gained the most year to date with a 24.9% return. TCRS elected new managers for its International Equity Portfolio last fall. He stated it is satisfying that all managers, Acadian, Fiera, J.P. Morgan, Mondrian, and Times Square are outperforming their benchmarks.

Mr. Brakebill then discussed the TIPS Portfolio which is being used as a source of cash due to low risk leading to low returns and the significant decrease in inflation expectations. The funds will be redirected to the Strategic Lending Portfolio.

Mr. Brakebill noted the Real Estate Portfolio's strong performance and indicated that he expects the income portion of the portfolio to remain consistent but thinks overall returns will decline due to lower price appreciation. The Private Equity Portfolio has very strong returns and continues to grow. Strategic Lending returned 12.5% over the past year. This is slightly behind the benchmark due to the outperformance of very low quality investments. TCRS is slightly underweight in these credits due to the risk.

TCRS is currently neutral in US Equities and Canadian Equities. The overweight in International Equities and Emerging Markets are being decreased to neutral with a portion of the decline being a liquidation of the Thailand exposure.

Mr. Brakebill discussed initiatives, personnel changes, and concluded with an update on the Federal Reserve normalization process and interest rate views.

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 Anderson County Emergency Communications District, Benton County Emergency Communications District, City of Gallaway, and South Central Human Resource Agency. Anderson County Emergency Communications District selected the Legacy Pension Plan. Benton County Emergency Communications District and City of Gallaway selected the Hybrid Plan with cost controls. South Central Human Resource Agency selected the Legacy Defined Benefit Plan.

On a motion by Comptroller Wilson and seconded by Commissioner Hunter, the Board unanimously approved the requests for participation in TCRS for Anderson County Emergency Communications District, Benton County Emergency Communications District, City of Gallaway, and South Central Human Resource Agency.

Proposed Rules – Correction of Participation Errors

Mr. Wayman provided a summary on the proposed rules changes. Ms. Tate asked about the right to appeal the action or decision to the director. Mr. Wayman responded saying the individual or entity can appeal to the director of the retirement system.

On a motion by Mr. Baker and seconded by Mr. Laney, the Board unanimously approved the proposed rules regarding correction of participation errors.

Other Business

Chairman Lillard announced future meetings. He reminded Board members that a Board educational session will take place after the meeting.

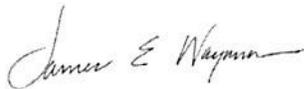
Adjournment

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. Morrison 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 10:40 a.m. on June 23, 2017.

Respectfully Submitted,



**Jamie Wayman
Director, TCRS**

Approved:



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

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