

Minutes of the TCRS Board of Trustees Meeting on March 29, 2019

The Board of Trustees of the Tennessee Consolidated Retirement System met on Friday, March 29, 2019 at 10:06 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. Justin Wilson, Comptroller of the Treasury; 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, and Mr. Timothy Ellis.

TCRS Board of Trustees Appointments

Chairman Lillard welcomed our new board members Mr. Timothy Ellis, City of Goodlettsville; Commissioner Juan Williams, Department of Human Resources and Commissioner Stuart McWhorter, Department of Finance and Administration.

Approval of the November 30, 2018 Minutes of the Board of Trustees

On a motion by Mr. Laney and seconded by Mr. Barker, the minutes of the November 30, 2018 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 discussed new board member appointments and upcoming terms and elections. Mr. Wayman provided a legislation update on bills impacting the retirement system. Ms. Mary Beth Franklyn provided an update on employer participation. Ms. Erica Nale provided an update on operations of the retirement system.

Chairman Lillard recognized Mr. Barker to review the audit committee report. Mr. Barker mentioned the committee approved minutes from the September 28, 2018 meeting. The committee recommended the approval of the audit committee charter. Mr. Barker mentioned the committee discussed other reports of different projects on which audit is currently working. No findings reported on GASB opinion letters, state audit opinion letters and audited financial statements. The committee also reviewed the risk assessment results. There was one report on the Comptroller Hotline but it did not impact the state.

Chairman Lillard provided the investment committee report. Chairman Lillard mentioned the committee approved several investment transactions on behalf of the retirement system. The investment committee discussed various aspects of investment operations.

Audit Committee Appointments

Chairman Lillard proposed and nominated to elect Mr. Timothy Ellis and Commissioner Juan Williams to the audit committee.

On a motion by Chairman Lillard and seconded by Mr. Barker, the Board approved the appointments of Mr. Ellis and Commissioner Williams to the audit committee with Mr. Ellis abstaining.

TCRS Audit Committee Charter

Chairman Lillard recognized Mr. Earle Pierce to review updates to the audit committee charter. Mr. Pierce mentioned the updates included a new section that provides the authority for the audit committee and it also updates the process of nominating audit committee members including chairman and the terms of service which is three years. Mr. Pierce mentioned formatting changes were updated. Mr. Barker mentioned it has been reviewed by the Comptroller and recommended for approval.

On a motion by Mr. Barker and seconded by Mr. Taylor, the Board unanimously approved the TCRS Audit Committee Charter.

Investment Report

Chairman Lillard called on Mr. Michael Brakebill to give an overview of the Investment Report. Mr. Brakebill reviewed the Verus Executive Summary Report, which showed the fund ended the second quarter of fiscal year 2019 with \$47.3 billion in assets. Since the end of fiscal year 2018, the portfolio has declined by \$2.5 billion because of benefit payments and a -6.1% return in the December quarter. The environment for returns in the quarter was very challenging with domestic equities down 14.7% and international equities down 11.6%. The negative performance in equities was offset by all other asset classes, which produced flat to modestly positive returns. On a relative basis, the Real Estate and Strategic Lending portfolios outperformed their benchmarks, the Fixed Income group performed in line, and Private Equity and Public Equity portfolios underperformed. While the environment was challenging for absolute and relative performance, overall the fund beat 70% of peers during the period.

Mr. Brakebill continued by mentioning that staff bought US Equities in late December and since the end of the quarter, performance has recovered significantly.

Mr. Brakebill highlighted the strong recent and long term performance in private equity and real estate, both on a relative and absolute basis. Mr. Brakebill then discussed the progress made year over year to increase the allocation to alternatives, such as Real Estate, Private Equity, and Strategic Lending. Over the long term the target allocation for each asset class is 10% and at the end of the quarter, the allocation to Real Estate, Private Equity, and Strategic Lending was 9.1%, 6.4%, and 5.7%, respectively.

Mr. Brakebill noted that while the performance in the quarter was discouraging, there have been only three fiscal years with a negative return throughout the entire history of the plan.

Actuarial Valuation Presentation

Chairman Lillard introduced Mr. Justin Thacker from Findley 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. He also mentioned that there is a separate process and reporting for GASB 67/68 information.

As determined by the July 1, 2018 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 1.73%, the public safety bridge rate will be .84%, state judges rate will be 7.31% and the rate for teachers will be 2.03%. 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 3.96%, the public safety bridge rate will be .84%, state judges rates will be 7.31%, and the rate for teachers will be 4.00%. The new employer contribution rates will go into effect July 1, 2019.

On a motion by Chairman Lillard and seconded by Mr. Varble, the Board unanimously approved the new employer contribution rates.

Other Business

Chairman Lillard 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. Wormsley and seconded by Mr. Laney, the Board unanimously approved the TCRS Board of Trustees motion to adjourn.

With no other business, the Board of Trustees adjourned at 11:03 a.m. on March 29, 2019.

Respectfully Submitted,

/s/ Jamie Wayman

**Jamie Wayman
Director, TCRS**

Approved:

/s/ David H. Lillard, Jr. 6.28.2019

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