

## **Minutes of the TCRS Board of Trustees Meeting on September 26, 2019**

The Board of Trustees of the Tennessee Consolidated Retirement System met on Thursday, September 26, 2019 at 10:00 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; Ms. Deborah Taylor-Tate, Administrative Director of the Courts; Commissioner Stuart McWhorter, Department of Finance and Administration; Commissioner Juan Williams, Department of Human Resources; Mr. Justin Wilson, Comptroller of the Treasury; Mr. Michael Barker, Mr. Timothy Ellis, Mr. Bill Kemp, Ms. Kelly Littleton-Brewster and Ms. Paula Shaw.

### **TCRS Board of Trustees Appointments**

Chairman Lillard welcomed Ms. Kelly Littleton-Brewster and Ms. Paula Shaw to the TCRS Board of Trustees.

### **Approval of the June 28, 2019 Minutes of the Board of Trustees**

On a motion by Mr. Kemp and seconded by Mr. Barker, the minutes of the June 28, 2019 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 a quorum was not present and therefore no action items were taken. The administrative committee reviewed an employer seeking participation in TCRS. The committee discussed retirement operations and financial empowerment, employer education and customer service. The committee also discussed projects such as security for the member and retiree self-service portal and online retirement.

Chairman Lillard recognized Mr. Barker to review the audit committee report. Mr. Barker mentioned the audit committee approved minutes from the June meeting. Mr. Barker mentioned Mr. Earle Pierce reviewed reports regarding various audit activities. No items were reported to the Comptroller hotline number.

Chairman Lillard provided the investment committee report. Chairman Lillard mentioned the committee reviewed and approved several transactions and Mr. Brakebill and his staff provided a status report on the investment portfolio.

### **Investment Report**

Chairman Lillard called on Mr. Michael Brakebill to give an overview of the Investment Report. Mr. Brakebill reviewed the Verus quarterly report for the period ending June 30, 2019. Mr.

Brakebill introduced the report beginning with an overview of the economic and investment climates.

Mr. Brakebill highlighted the performance results of the investment industry benchmarks for the periods of the most recent quarter through ten years. The 10-year market returns in global public equities were strong, particularly in US equities which outperformed international equities. Fixed income returns were significantly lower than equity returns due to the extended low interest rate environment over the same period. Mr. Brakebill continued, highlighting strong performance in REITs (real estate investment trusts), low single digit returns in hedge funds and minimal inflation at 1.7%. As of June 30, 2019, the \$52.3 billion portfolio produced a 9.4% 10-year return, a 6.6% 5-year return, a 9.0% 3-year return, and a 7.5% 1-year return. The TCRS 1-year performance outperformed 93% of Public Defined Benefit plans with more than \$1 billion in assets, which achieved a gross median return of 5.4%. TCRS returns were above peer median returns for the 1, 3, 5 and 10-year periods.

Mr. Brakebill reviewed the 1-year performance by major asset class, noting strong absolute and relative returns. The US fixed income portfolio delivered a strong 11.0% return and outperformed the benchmark while the US equity portfolio delivered a solid 7.2% return but underperformed the benchmark. Within equities, the large-cap equity overlay program and small cap portfolio outperformed their benchmarks. Both international developed and international emerging markets equity portfolios achieved above benchmark returns, but the absolute returns of these portfolios were less than that of US equities. Mr. Brakebill reiterated that the inflation hedged portfolio continues to wind down and that funds are redeployed in the strategic lending portfolio which generates higher returns. Unlike traditional fixed income investments, strategic lending returns are driven by credit risk, not duration. Mr. Brakebill then highlighted real estate performance, which continued to outperform its benchmark in the 1, 3 and 5-year periods. He noted that real estate valuations are high and fundamentals are acceptable. He then discussed the strong returns in private equity, up 17.5% over the trailing 1-year. The strong private equity returns in the 1, 3, and 5-year periods are the result of an eleven-year effort to develop staff, process and solid investments.

Mr. Brakebill finalized his review with the risk and return of TCRS relative to its peers. TCRS took less risk and added more value than the standard portfolio over the 5-year period.

Chairman Lillard asked if there were any questions about portfolio performance. Ms. Deborah Taylor-Tate raised a question about plans to increase the asset allocation to private equity given the strong returns achieved recently and historically. Mr. Brakebill replied that the alternative investment class, which includes private equity, real estate and strategic lending, has an interim allocation target of 7% and long-term target of 10%. Mr. Brakebill clarified that long-term refers to a three to five year period of time. Ms. Taylor-Tate also raised a question about the public REIT investments performance relative to private real estate investments. Mr. Brakebill noted that public investments react more quickly than private investments and that REITs have some leverage which amplifies their performance. He shared that TCRS views public REITs as undervalued compared to private real estate at this time.

## **Political Subdivision Petitioning for Membership in TCRS**

Chairman Lillard introduced Mr. Wayman to review a political subdivision seeking participation into TCRS. Mr. Wayman reviewed the request for participation into TCRS for the Tazewell-New Tazewell Fire Department. Mr. Wayman mentioned this is a joint venture with the City of Tazewell and the City of New Tazewell. Mr. Wayman mentioned there are three resolutions, one being the joint venture of the fire department and each participant in the joint venture must authorize the participation. The fire department has one full time employee and they are selecting the legacy defined benefit plan, they are not offering prior service and they will offer cost of living benefits and not covering part-time employees. The employer rate will be 6.5% and the employees will contribute 5%.

On a motion by Mr. Wayman and seconded by Ms. Taylor-Tate, the Board unanimously approved the request for participation into TCRS for the Tazewell-New Tazewell Fire Department.

## **Other Business**

Chairman Lillard announced future meeting dates. 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 Commissioner Williams, the Board unanimously approved the TCRS Board of Trustees meeting be adjourned.

With no other business, the Board of Trustees adjourned at 10:30 a.m. on September 26, 2019.

**Respectfully Submitted,**

/s/Jamie Wayman  
**Jamie Wayman**  
**Director, TCRS**

**Approved:**

/s/David H. Lillard, Jr. December 6, 2019  
**David H. Lillard, Jr.**  
**Chairman of the Board**