

Minutes of the TCRS Board of Trustees meeting on September 25, 2015

The Board of Trustees of the Tennessee Consolidated Retirement System met on Friday, September 25, 2015 at 10:05 a.m. The meeting was held in Room 30 of the Legislative Plaza with Chairman David Lillard presiding.

Chairman Lillard announced that Mr. Jamie Wayman, Assistant Director of TCRS, was the acting secretary for the meeting.

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 to the Treasury; Mr. Michael Barker, Ms. Patsy Moore, Ms. Angie Judish, Mr. Alfred Laney, Mr. Bob Wormsley, Mr. Bill Kemp, Mr. Kevin Fielden, Mr. Harold Morrison, Mr. Ken Wilber, Ms. Shannon Jones and Mr. Tony Crisp.

TCRS Board of Trustees Appointments

Chairman Lillard mentioned that Mr. Charles Archer retired and Ms. Shannon Jones was selected to replace Mr. Archer on the Board. Mr. Tony Crisp was appointed to the Board by the Governor replacing Mr. Gill Kendrick.

On a motion by Chairman Lillard and seconded by Comptroller Wilson the Board unanimously approved Ms. Jones election to the Board. The Oath of Office was administered to Ms. Jones and Mr. Crisp.

Audit Committee Appointment

Chairman Lillard recommended Mr. Crisp be appointed to the audit committee.

On a motion by Mr. Kemp and seconded by Comptroller Wilson, the Board unanimously approved Mr. Crisp's appointment to the audit committee.

Approval of the June 26, 2015 Minutes of the Board of Trustees

On a motion by Mr. Barker and seconded by Mr. Wormsley, the minutes of the June 26, 2015 TCRS Board of Trustees meeting were unanimously approved.

Board of Trustees Committee Reports

Chairman Lillard recognized Mr. Barker to provide the audit committee report. Mr. Barker mentioned a quorum was not present. He noted the committee reviewed the Treasury Department standards of professional conduct, the investment division code of ethics and several reports from internal audit. The committee was given an update on Concord from Mr. Wayman and the committee reviewed the private equity disclosure list.

Chairman Lillard recognized Mr. Wayman to review the administrative committee report. Mr. Wayman noted that Mr. Fred Marshall provided an update on Concord. The committee discussed the City of Covington participation in TCRS. Mr. Wayman mentioned the backlog of retirement applications have been reduced to the normal balance. Ms. Christy Allen provided the committee an update on litigation.

Chairman Lillard reviewed the investment committee meeting. He mentioned the committee considered reports from Mr. Michael Brakebill and TorreyCove concerning activities in private equity and strategic investment.

Actuarial Valuation

Chairman Lillard introduced Mr. Steve Curry to provide an introduction on the Governmental Accounting Standards Board (GASB). GASB issued new standards that have a significant impact on how pension data relating to defined benefit plans is presented in financial statements of pension plans and governmental employers. Mr. Curry mentioned GASB 67 became effective June 30, 2014. He also noted that TCRS financial statements were presented in accordance with the new standards. GASB 68 became effective this year with the new standards first applicable to June 30, 2015 financial statements of governmental employers. Mr. Curry stated two actuarial valuations will be performed each year. He reviewed how GASB 67 and 68 will impact governmental employers participating in TCRS.

Mr. Curry introduced Mr. Justin Thacker with Bryan, Pendleton, Swats, and McAllister to review the actuarial report related to GASB statement No. 68 as of June 30, 2014. Mr. Thacker provided a system overview on the defined benefit plan design. Due to the new GASB statements, accounting and funding of defined benefit plans are no longer linked. He also mentioned instead of using asset smoothing, GASB 67 and 68 will use the fair market value of assets. Next Mr. Thacker reviewed GASB 68 results for the different plans.

Investment Report

Mr. Brakebill introduced Mr. Barry Dennis of Strategic Investment Solutions to review the fund's performance for fiscal fourth quarter 2015, and full fiscal year 2015, both ending June 30, 2015. Before walking through the fund's performance highlights, Mr. Dennis noted interest rates rose significantly during the June quarter after falling dramatically in the March quarter. Also noteworthy was the decline in the value of the U.S. dollar after a significant rally in the first calendar quarter. Moving onto fund performance, Mr. Dennis noted the fund was essentially flat at -0.7% in the June quarter beating the index by 0.1% though relative to peers, the fund was in the 98th percentile. For the full fiscal year, the fund returned 3.3% again beating its index, this time by 0.7%, and outperforming a majority of its peers, placing in the 43th percentile. He proceeded to highlight returns by asset class noting exceptional performance came from the international equities and private equity. Mr. Dennis concluded his remarks by discussing September quarter returns to date have been very weak across the board with significant weakness in equity markets both at home and abroad due to weakness in China and among emerging market currencies. He pointed out though the Fed chose not to raise rates at its most recent meeting earlier this month they also did not give the market any suggestion that further

monetary easing was necessary as the U.S. economy in general appears healthy based on employment, a slight pickup in wage growth, housing data and second quarter revised GDP of 3.9%.

Mr. Brakebill then reviewed a few key initiatives for TCRS this quarter. The list included hiring a new member of the Real Estate team, ongoing recruiting for a new Deputy Chief Investment Officer to replace Mr. Andy Palmer, initiating a search process for an additional member of the fixed income team and the recent promotion of Mr. Thomas Kim to Director of Fixed Income. Additionally, TCRS has been busy with selecting a general consulting through the RFP process, implementing a new relationship management software platform, engaging international managers and making TCRS available as an investment option for defined contribution participants as of July 1, 2015.

Mr. Brakebill concluded the investment update with some comments regarding market performance and his investment outlook. He noted the U.S. appears to be doing well outside the industrial manufacturing sector as evidenced by the diverging stock performance of Amazon.com and Caterpillar which is uniquely exposed to weakness in both energy and mining as a result of low commodity prices. He expressed cautious optimism over the strong employment data and signs of wage growth which has remained elusive for the last several years. Mr. Barker asked him to comment on Volkswagen and Mr. Brakebill noted the fund has a small exposure to Volkswagen in two of its international equity portfolios following the recent emissions fraud revelations.

Political Subdivisions Petitioning for Membership in TCRS

Mr. Wayman advised the Board that the administrative committee had reviewed the request for participation in TCRS for the City of Covington. He also noted the plan will only cover new employees.

On a motion by Mr. Wilber and seconded by Mr. Wormsley, the Board unanimously approved the request for participation in TCRS for the City of Covington.

Other Business

Chairman Lillard mentioned the members will be meeting for a training session after the Board 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.

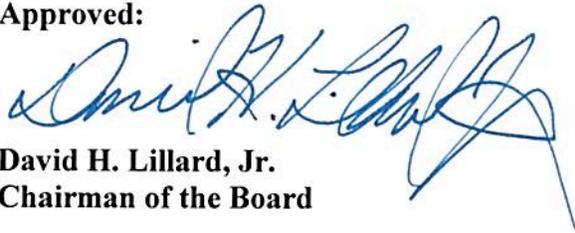
With no other business, the Board of Trustees adjourned at 11:08 a.m. on September 25, 2015.

Respectfully Submitted,

A handwritten signature in blue ink that reads "Jill Bachus". The signature is written in a cursive, flowing style.

**Jill Bachus
Director, TCRS**

Approved:

A handwritten signature in blue ink that reads "David H. Lillard, Jr.". The signature is written in a cursive, flowing style with a large, stylized flourish at the end.

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