

Minutes of the TCRS Board of Trustees meeting on June 26, 2015

The Board of Trustees of the Tennessee Consolidated Retirement System met on Friday, June 26, 2015 at 10:00 a.m. The meeting was held in Room 30 of the Legislative Plaza with Chairman David Lillard presiding.

Chairman Lillard asked Ms. Jill Bachus to conduct an attendance roll call. The following members were present: Chairman David Lillard, State Treasurer; Ms. Jill Bachus, Director of TCRS; Ms. Deborah Taylor Tate, Administrative Director of the Courts; Mr. Michael Barker, Ms. Patsy Moore, Ms. Angie Judish, Mr. Alfred Laney, Mr. Bob Wormsley, Mr. Charles Archer, and Mr. Bill Kemp.

Approval of the March 27, 2015 Minutes of the Board of Trustees

On a motion by Mr. Laney and seconded by Mr. Wormsley, the minutes of the March 27, 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 the only action item was the approval of the March 27, 2015 committee minutes. The committee reviewed the audit committee charter and a letter regarding the annual audit to be performed by the Comptroller's Office. Also discussed was the Comptroller's hotline and the testing of employer provided data from school systems. Ms. Bachus provided an update on Concord and the committee reviewed the private equity disclosure.

Chairman Lillard recognized Ms. Bachus to review the administrative committee report. Ms. Bachus mentioned that Mr. Fred Marshall provided the committee with an update on Concord, including current projects, and discussed testing that is being done by Dynetics to review security with the online system. Mr. Jamie Wayman provided an update on GASB efforts that are being made in the department. The committee reviewed two local governments seeking participation into TCRS

Chairman Lillard reviewed the investment committee meeting. He mentioned the committee approved a real estate transaction and Mr. Michael Brakebill provided an overview on the investment performance. The committee also discussed personnel changes to the investment staff.

Investment Report

Chairman Lillard recognized Mr. Brakebill to review the investment report. Mr. Brakebill discussed the overall performance of the portfolio for the quarter ended March 31, 2015. Total return for the fund was 2.4% during the quarter and 8.7% for the trailing twelve month (TTM) period. The March quarter performance was roughly 22 basis points (bps) ahead of the fund's index. Mr. Brakebill noted that Mr. Barry Dennis of Strategic Investment Solutions (SIS), the fund's general consultant, applauded the fund's active management performance over the last

four quarters relative to peers in the industry, highlighting that the 8.7% TTM performance beat 96% of comparable funds. U.S. equities returned 2.3% during the March quarter and 13.5% for the TTM period, which was nearly 1% better than the benchmark, greatly exceeding its target performance level. Moving to International Equities, Mr. Brakebill noted the 4.3% return during the March quarter beat the index by 73 bps. Fixed Income returned 2.6% in the March quarter roughly in line with its benchmark while TTM performance was 11.1%. Though this strong TTM performance for fixed income was 31 bps below the index, it significantly outperformed the commonly used Barclays Aggregate index, which returned roughly 5% over the same period. Mr. Brakebill noted the Real Estate fund returned 2.6% during the March quarter and 11.8% over the prior twelve month period while the Private Equity fund returned 4.5% and 22% over the same periods, respectively.

Mr. Brakebill then reminded the Board of Mr. Andy Palmer's pending departure from his position as Deputy Chief Investment Officer and Director of Fixed Income to become Chief Investment Officer of the State of Maryland's retirement system. Mr. Brakebill then asked Mr. Palmer to make a few brief remarks. Subsequently, Mr. Thomas Kim was introduced as the new Director of Fixed Income replacing Mr. Palmer. A search for a permanent Deputy Chief Investment Officer is now ongoing. Chairman Lillard thanked Mr. Palmer for all his work and wished him well on his move and new position. Chairman Lillard welcomed Mr. Kim as fixed income director. He also mentioned they will be publishing a job description in search for a new deputy chief investment officer in the near future.

Mr. Brakebill then informed the Board that TorreyCove Partners had been engaged to serve as the fund's new private equity advisor, replacing Cambridge Associates. Mr. Brakebill noted members of the TCRS staff sat for various levels of the CFA exam earlier this June. He then said TCRS was on track to offer the pension plan as an investment option in the Hybrid plan beginning July 1st. This allows participants to have low cost access to TCRS's sophisticated investment strategies.

Looking ahead, Mr. Brakebill made a few comments regarding the tactical asset allocation as it currently stands. He forecasted a return of 3-4% for fiscal 2015 with a few trading days remaining before the end of the fiscal year. He concluded his remarks by offering a few comments on his expectations for single digit investment performance in fiscal 2016 given the similar macroeconomic backdrop as a year ago along with expensive equity prices and low bond yields.

Legislation Update/Highlights

Chairman Lillard mentioned that information was provided in the Board materials concerning legislation enacted by the General Assembly in the current year.

Political Subdivisions Petitioning for Membership in TCRS

Ms. Bachus advised the Board that the administrative committee had reviewed the requests for participation in TCRS for the Coffee County Board of Education and Marshall County Communications District.

On a motion by Ms. Bachus and seconded by Mr. Wormsley, the Board unanimously approved the requests for participation in TCRS for the Coffee County Board of Education and Marshall County Communications District.

Other Business

Chairman Lillard reviewed the Standard & Poors Ratings Services report. The report stated that TCRS ranked as having the fifth (5th) best funded ratio among state pension plans. The report was provided to the members for review.

Ms. Deborah Taylor Tate disclosed to the Board that her son was recently employed with NorthHighland and unrelated to TCRS project.

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 10:34 a.m. on June 26, 2015.

Respectfully Submitted,



**Jill Bachus
Director, TCRS**

Approved:



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