

Minutes of the TCRS Board of Trustees meeting on March 30, 2012

The Board of Trustees of the Tennessee Consolidated Retirement System met on Friday, March 30, 2012 at 10:05 a.m. The meeting was held in Room 30 of the Legislative Plaza with Chairman David Lillard presiding.

Chairman Lillard asked Ms. Bachus to conduct an attendance roll call. The following members were present: Chairman David Lillard, State Treasurer; Mr. Tre Hargett, Secretary of State; Ms. Jill Bachus, Director of TCRS; Ms. Libby Sykes, Administrative Director of the Courts; Mr. Erick Huth, Mr. Greg Elliott, Mr. Michael Barker, Mr. Al Laney, Mr. Ken Wilber, Mr. Tommie Pendergrass, Ms. Patsy Moore, Mr. Bill Kemp, and Mr. David Seivers.

Approval of the November 18, 2011 Minutes of the Board of Trustees

On a motion by Mr. Elliott and seconded by Mr. Huth, the minutes of the November 18, 2011 TCRS Board of Trustees meeting were unanimously approved.

Board of Trustees Committee Report

Chairman Lillard recognized Mr. Barker to provide the audit committee report. Mr. Barker introduced Mr. Andy Furlong as the new Director of Internal Audit for the Treasury Department. Next Mr. Barker noted the audit committee reviewed the accounting and reporting standards. At the meeting, Ms. Teresa Hensley from the Comptroller's office discussed the June 30, 2012 State audit process and report. In addition, Ms. Suzanne Smotherman gave an update on the Concord project.

Chairman Lillard recognized Ms. Bachus to provide the administrative committee report. Ms. Bachus mentioned Mr. Fred Marshall provided the committee with an update on Concord. Mr. Jamie Wayman provided an update on the GASB Standards. Ms. Bachus updated the administrative committee on the retirement applications being processed and the proposed legislation related to new local government plan options. Ms. Bachus mentioned the cost of living adjustment (COLA) will be 3% effective July 1, 2012.

Chairman Lillard provided the investment committee update. The investment committee approved a proposed acquisition on The Avery on Southwestern, an apartment complex in Dallas, Texas. Chairman Lillard mentioned the investment committee discussed the portfolio and market review. Mr. Pete Keliuotis with Strategic Investment Solutions reviewed the asset-liability study.

Investment Report

Chairman Lillard introduced Mr. Michael Brakebill, Chief Investment Officer, to review the investment report. Mr. Brakebill led the discussion with a personal disclosure of his activities with the Tennessee Valley Authority Retirement System (TVAR) as a paid, non-voting Investment Committee member. Mr. Brakebill reminded the Board that he initially disclosed

this relationship to the Board in the fall of 2010 and the disclosure at this meeting was intended to keep the Board apprised on an annual basis. The Treasurer and Assistant Treasurer have reviewed the documents involved with this relationship and have expressed satisfaction that there are no significant conflicts of interest. Mr. Brakebill discussed how this relationship had significantly improved his investment management knowledge which directly benefits the management of the TCRS pension fund.

Mr. Lamar Villere disclosed that he has been asked to join the Board of Barron Collier Companies which is a privately owned company. Mr. Villere will receive compensation for this position. The Barron Collier Company focuses primarily on real estate within Florida and Arizona. Mr. Villere discussed that the Treasurer and Assistant Treasurer have reviewed the documents involved with this relationship and have expressed satisfaction that there are no significant conflicts of interest. Additionally, Mr. Villere discussed that the time he would spend with this relationship would all be done using his personal time.

Mr. Brakebill then moved to the discussion of investment performance. The one year return as of December 31, 2011 was 5% which is exceptional in comparison with most peer pension plans that have returns in the range of 1% to 3%. Mr. Brakebill discussed the key initiatives from December 2011 and the asset allocation process underway. Next, Mr. Brakebill reviewed the market movements and investment responses since June 2011. Mr. Brakebill noted the significant positive impact the longer duration fixed income portfolio had made on the performance of the fund. Mr. Brakebill introduced, and congratulated, Mr. Pete Keliuotis for his new role at Strategic Investment Solutions, Inc. as their Chief Executive Officer.

Mr. Pete Keliuotis introduced Mr. Rich Dabrowski, Senior Consultant at Strategic Investment Solutions, Inc. Mr. Dabrowski will be working with Mr. Keliuotis and the Investment Division. Mr. Keliuotis began by reviewing the "December 2011 Executive Summary Report." Mr. Keliuotis reviewed the asset allocation and stated that the plan was slightly overweight in fixed income for the year end. TCRS finished the quarter with a return of 5.87% and the year with a return of 5.02%, which was well above the policy index return. The Domestic Equity portfolio for the quarter had a return of 12.51%. Next Mr. Keliuotis reviewed the International Equity portfolio. The portfolio outperformed the EAFE IMI by 0.23% for the quarter ending at 3.09%, but underperformed the median international manager. The portfolio outperformed the index by 1.75% for the year and beat the median manager by 1.31%. The Real Estate portfolio had good absolute performance (14.64%) for the year, and good performance relative to the median fund (12.46%).

Mr. Keliuotis reviewed the "Introduction to 2012 Asset-Liability Modeling (ALM) Study". Mr. Keliuotis provided a background of the process and discussed that the last ALM study was completed by SIS in 2007. The 2007 study led to notable portfolio changes such as an increase in Real Estate from 4% to 7%, a decrease in Fixed Income from 43% to 34%, and the addition of the Private Equity portfolio. Since September 30, 2007, core bond yields have fallen from 5.3% to 2.2%. Mr. Keliuotis reviewed the three inputs that go into a standard asset allocation model. Mr. Keliuotis concluded his remarks with a review of the Strategic Investment Solutions, Capital Market Expectations.

Other Business

Chairman Lillard mentioned the local government pension bill continues to move forward this session. An update will be given to the Board at the June 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. Kemp and seconded by Mr. Barker, the Board unanimously approved the TCRS Board of Trustees meeting be adjourned.

With no other business, the Board of Trustees adjourned at 10:50 a.m. on March 30, 2012.

Respectfully Submitted,



Jill Bachus
Director, TCRS

Approved:



David H. Lillard, Jr.
Chairman of the Board