

## **Minutes of the TCRS Board of Trustees meeting on March 28, 2014**

The Board of Trustees of the Tennessee Consolidated Retirement System met on Friday, March 28, 2014 at 10:05 a.m. The meeting was held in the Nashville Room of the William R. Snodgrass Tennessee Tower 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; Mr. Justin Wilson, Comptroller to the Treasury; Ms. Jill Bachus, Director of TCRS; Mr. Michael Barker, Ms. Patsy Moore, Mr. Bill Kemp, Mr. Ken Wilber, Mr. Harold Morrison, Mr. Kevin Fielden, Ms. Angie Judish, Mr. Alfred Laney, and Mr. Bob Wormsley.

### **Approval of the December 16, 2013 Minutes of the Board of Trustees**

On a motion by Comptroller Wilson and seconded by Mr. Wormsley, the minutes of the December 16, 2013 TCRS Board of Trustees meeting were unanimously approved.

### **Board of Trustees Committee Reports**

Chairman Lillard recognized Mr. Barker to provide the audit committee report. During the meeting, Mr. Daniel Crews reviewed the private equity portfolio and Mr. J.P. Rachmaninoff reviewed the real estate portfolio. The committee reviewed the audit report from the Comptroller's office. Mr. Barker mentioned there were no audit findings in the report. The committee also reviewed several other reports and topics. Ms. Bachus provided an update on Concord.

Chairman Lillard recognized Ms. Bachus to provide the administrative committee report. Ms. Bachus mentioned that Mr. Fred Marshall provided an update on the Concord project. The committee was provided a brief update on legislation from the current session and information from the actuary concerning contribution rates for the new State and Teacher Hybrid Pension Plan. Mr. Wayman discussed the pension plan that is effective July 1, 2014.

Chairman Lillard reviewed the investment committee report. Chairman Lillard mentioned the committee reviewed the executive summary report, fixed income update, and investment transactions.

### **Investment Report**

Mr. Michael Brakebill introduced Mr. Pete Keliuotis from Strategic Investment Solutions (SIS) who provided a review of the fund's investment performance as of December 31, 2013, which is detailed in the Investment Report and in the SIS quarterly performance report. Mr. Keliuotis began by saying that the fund benefited from improving economic fundamentals in the U.S. and Europe. He did mention that emerging markets, specifically China, Brazil and Russia, remain a concern as economic growth slows in those areas. He also noted that markets continue to watch the actions of the Federal Reserve closely as tapering of quantitative easing continues.

Mr. Keliuotis mentioned that the fund assets total slightly over \$40 billion. From an asset allocation standpoint, during the quarter, the allocation to U.S. Equities was 36.5%, 3.5% above

its target. However, he explained that much of this variance was due to pending investments in Real Estate, Private Equity and Strategic Lending which would be funded out of U.S. Equities and, to a lesser extent, U.S. Fixed Income.

In terms of performance, Mr. Keliuotis indicated that the fund generated a quarterly return of 4.66%, a 1-year return of 12.87%, and a 3-year return of 10.13%. North American Equity has been a strong driver of performance, rising 9.54% in the quarter and 29.06% and 14.81% over the 1- and 3-year period, respectively. International Equity rose 5.60%, 19.46% and 8.64% on a quarterly, 1-year and 3-year basis. With respect to Fixed Income, Mr. Keliuotis noted that the long duration posture of the portfolio, hurt the fund's absolute performance by -0.28% for the quarter and -4.46% for the trailing year, but on a relative basis, outperformed its benchmark by 0.56% and 1.53%, respectively. Mr. Keliuotis concluded his remarks by pointing out that Real Estate, Private Equity and Strategic Lending generated positive absolute returns during the quarter, up 1.64%, 3.31% and 2.91%, respectively.

Mr. Brakebill pointed out that in March 9, 2009 the fund totaled \$22 billion before the outflow of \$3 billion of net benefits. Five years later the fund reached \$41 billion. While this is an impressive recovery, Mr. Brakebill noted that the future performance outlook is less certain with more tepid expected return levels. Since 2009 the group has added new asset classes – the Canada Fund, the International Emerging Markets Fund, Private Equity and Strategic Lending. The group has also eliminated its allocation to International Fixed Income.

Mr. Brakebill announced that Mr. J. P. Rachmaninoff has joined TCRS as Director of Real Estate and described his background. Mr. Brakebill also mentioned that Mr. Daniel Crews had been promoted to Director of Private Equity. He mentioned the Mr. Jesse Picunko, who worked on the Fixed Income team, had recently announced that he would be leaving TCRS for personal reasons. He indicated that the group would be looking for a replacement for Mr. Picunko and that a search would soon be underway in Private Equity.

Since the beginning of the fiscal year, there has been significant activity in Strategic Lending, Real Estate and Private Equity. The group has been involved in 29 transactions totaling \$2.5 billion in commitments that have either closed or are in process of closing. These investments have required considerable due diligence efforts and should be funded in the coming quarters. Mr. Brakebill mentioned that the Investments Group has launched its securities lending program and it is already yielding modest returns with an expected ramp in the coming months.

Mr. Brakebill then turned the discussion to Emerging Markets ETFs and indicated that the group is looking to mitigate risk. For the moment, the group has reduced Emerging Market exposure near-term. Longer-term, Mr. Brakebill indicated that it has a positive long-term view of the Emerging Markets.

Mr. Brakebill discussed portfolio allocation since the beginning of the calendar year. He noted that the group has sold \$300 million of U.S. equities in recent weeks and has brought down the overweight in stocks to 0.5%. The group remains overall neutral in the current environment.

### **Hybrid Plan Employer Contribution Rates**

Chairman Lillard introduced Mr. Justin Thacker to review the new hybrid plan employer contribution rate beginning July 1, 2014. Mr. Thacker began by mentioning that only employees

hired on or after July 1, 2014 will participate in the hybrid plan. Current employees remain in the legacy plan. Mr. Thacker provided a brief overview of the legacy and hybrid plans. Next he reviewed the hybrid plan employer cost estimates for state employees and teachers. Mr. Thacker recommended the following actuarial rates: general employees - 2%, public safety bridge - .75%, state judges - 7%, and teachers - 2.5%. The overall employer contribution rate for the state employee group will be 4% with an actual breakdown as follows: general employees - 3.87%, public safety bridge - .75%, state judges - 7%, and teachers - 4%.

Mr. Barker made a motion to approve the recommended contribution rates and the motion was seconded by Mr. Wormsley. The Board unanimously approved the recommended contribution rates for the new hybrid plan.

**Other Business**

Chairman Lillard asked Ms. Bachus to give an update on Concord. Ms. Bachus mentioned that TCRS staff is working diligently and the go-live date for the new Concord phase is set for May 28, 2014. She also mentioned that staff has started regional meetings for employer training on the Concord system.

**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. Laney, the Board unanimously approved the TCRS Board of Trustees meeting be adjourned.

With no other business, the Board of Trustees adjourned at 10:45 a.m. on March 28, 2014.

**Respectfully Submitted,**



**Jill Bachus**  
**Director, TCRS**

**Approved:**



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