Minutes of the TCRS Board of Trustees meeting on March 27, 2015

The Board of Trustees of the Tennessee Consolidated Retirement System met on Friday, March 27, 2015 at 10:22 a.m. The meeting was held in the Nashville Room of the William Snodgrass Building 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; Ms. Jill Bachus, Director of TCRS; Commissioner Rebecca Hunter, Department of Human Resources; Ms. Deborah Taylor Tate, Administrative Director of the Courts; Mr. Michael Barker, Ms. Patsy Moore, Mr. Bill Kemp, Mr. Ken Wilber, Ms. Angie Judish, Mr. Alfred Laney, Mr. Bob Wormsley, and Mr. Charles Archer.

TCRS Board of Trustees Appointment

Chairman Lillard introduced Ms. Deborah Taylor Tate, Administrative Director of the Courts, to the Board. Ms. Tate is appointed as the successor to Mr. Bill Young.

Market Choice Award

Chairman Lillard congratulated the investment division on receiving a Market Choice Award for 2014-2015 for the best public pension plan. A press release was distributed to members.

Approval of the December 12, 2014 Minutes of the Board of Trustees

On a motion by Mayor Wilber and seconded by Commissioner Hunter, the minutes of the December 12, 2014 TCRS Board of Trustees meeting was 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 approval of the December audit committee minutes. The audit committee discussed the fair market value estimate on private equity and real estate items. The committee reviewed the TCRS audit report from the division of state audit for the fiscal year ended June 30, 2014. Mr. Barker mentioned the committee reviewed other reports concerning financial statements, strategic accounting and reporting standards. The committee reviewed the private equity disclosure document. Ms. Jill Bachus provided the audit committee an update on Concord.

Chairman Lillard recognized Ms. Jill Bachus to review the administrative committee report. Ms. Bachus mentioned the committee approved the December administrative committee minutes. Mr. Fred Marshall provided an update on Concord and Mr. Jamie Wayman provided an update on retirement operations. The administrative committee reviewed the City of Tullahoma request for participation in TCRS. The committee also reviewed an update on the investment policy and the group trust declaration document.

Chairman Lillard reviewed the investment committee meeting. The investment committee approved three transactions. Chairman Lillard mentioned the committee reviewed changes to the investment policy, reviewed a presentation on the investment portfolio, and discussed asset allocation.

Investment Report

Mr. Brakebill introduced Mr. Patrick Thomas with SIS Consulting, who proceeded to review fourth quarter market results and highlighted several key themes which impacted performance, including the 50% fall in oil prices as the Saudis rejected their historical role as the swing producer and the Federal Reserve's attempt to telegraph future interest hikes. Mr. Thomas noted TCRS had an extremely impressive calendar 2014 investment performance, posting returns of 8.76%. The fund was in the top 5% of public peer plans. This rank is particularly noteworthy as the rank is on a gross of fees basis, which considering TCRS's extremely low costs is even more impressive. The domestic equity performance was exceptionally strong, especially in light of a very difficult year for active managers.

Mr. Thomas then introduced Mr. Barry Dennis to make some comments regarding his firm's evaluation of TCRS's investment performance and a discussion of the process his firm employs for Asset Liability studies. Mr. Dennis began his comments by noting the importance of good asset allocation which he asserted will account for more than 90% of investment returns over the next 10 years. He asserted TCRS is getting the maximum return for the risk it is taking. He discussed how TCRS is using an "endowment lite" model of asset allocation which is a blend of the Traditional Asset Allocation model and the "Endowment Model." The Endowment Model, made famous by Yale's David Swensen, is characterized by its high allocation to illiquid and complex investments in the areas of private equity, venture capital and real assets. Mr. Dennis went on to review TCRS's performance relative to its peers and in the context of recent market returns.

Mr. Brakebill next discussed the overall market and recent investment performance noting that on a historical basis, stocks, bonds, real estate and cash were all expensive and as a result future returns are expected to be lower than in the recent past. He also noted periods of richly valued securities can last longer than the market expects and we have witnessed more extreme valuations in the past. This means that portfolio positioning is very difficult and will probably lean toward a neutral position for the near-term.

Political Subdivision Petitioning for Membership in TCRS

Ms. Bachus advised the Board that the administrative committee had reviewed the request for participation in TCRS for the City of Tullahoma.

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

Investment Policy

Mr. Brakebill explained that the proposed policy was rewritten with the primary goal of complying with recent regulatory and legal changes. Mr. Brakebill reviewed a few changes to the Policy in the areas of compliance and auditing. He noted Ms. Jennifer Selliers, Treasury Compliance Officer, has been spearheading this effort. He noted that there were a small number of changes that were important to consider. The first was increasing the dollar limit of real estate and private equity investments that can be approved by the Treasurer without prior approval by the investment committee from $30 million to $75 million. This change is intended to decrease the number of ad hoc board meetings and be respectful of investment committee members time constraints. The second change Mr. Brakebill discussed was raising the cap on non-core real estate investments. The maximum limit has been increased from 20% to 30% of the target real estate portfolio weight, but the target allocation will remain 20%. The change is meant to permit staff to achieve the 20% target without exceeding a policy guideline. Changes to the investment policy concerning derivatives were recommended as a result of Dodd-Frank legislation. Finally, the policy provides for the Treasurer to have the authority to approve alternative procurement processes for service providers pending the development of process guidelines.

On a motion by Mr. Kemp and seconded by Mr. Barker, the Board unanimously approved changes to the investment policy.

Group Trust Declaration Documentation

Chairman Lillard introduced Ms. Christy Allen, Assistant Treasurer of Legal, Audit and Compliance, to review the group trust declaration document. This document authorizes the Board to adopt a group trust instrument that would allow participants in the State's defined contribution plan another investment choice.

On a motion by Mayor Wilber and seconded by Commissioner Hunter, the Board unanimously approved the group trust document.

Other Business

Chairman Lillard announced future meetings. He reminded Board members that a Board educational session will take place after the meeting.

Chairman Lillard noted the cost of living adjustment will be 1% effective July 1, 2015.

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 Commissioner Hunter and seconded by Ms. Moore, the Board unanimously approved the TCRS Board of Trustees meeting be adjourned.

With no other business, the Board of Trustees adjourned at 11:27 a.m. on March 27, 2015.

Respectfully Submitted,

Jill Bachus
Director, TCRS

Approved:

David H. Lillard, Jr.
Chairman of the Board