

A regular meeting of the Pension Committee was held May 11, 2017 at 9:00 a.m. in the Administration Conference Room at Town Hall, 500 Poplar View Parkway.

The following members were present: Dick Gardiner, Gregory Reichert, Mark Krock, Jay Jeffries and Stan Joyner.

Staff present was Pension Attorney Frank Carney and Lynn Carmack. Also present was Susan Fletcher, Ward McBee, Gerald Laurain, and Lisa Cook of First Tennessee Bank.

APPROVAL OF MINUTES

Motion by Mayor Joyner to approve the minutes of the February 8, 2017 meeting.

ROLL CALL: Gardiner – yes, Reichert – yes, Krock – yes, Jeffries – yes, Joyner – yes.
Motion approved.

REVIEW OF THE QUARTERLY INVESTMENT PERFORMANCE OF THE COLLIERVILLE DEFINED BENEFIT PENSION PLAN BY FINANCIAL ADVISORS – FIRST TENNESSEE BANK (Gerald Laurain, Ward McBee and Susan Fletcher)

Mr. Laurain gave a general overview of what is going on in domestic markets and the political situation since the election.

He said that things are not calm and stable in Europe but they are turning in reasonable growth numbers in spite of all that, probably because of zero interest rates. Japan continues to be mired in slow growth and they too have zero interest rates.

Looking at the emerging market economy (Brazil, Russia, India and China), Brazil is having stagflation, which is stagnant growth, and at the same time they are having inflation. Russia is having problems (they are heavily dependent upon the price of oil). A lot of their government revenue comes from the exportation of oil and when the value of the export goes from over \$100 a barrel to \$50 a barrel, it cuts income in half and that creates a depression mentality. China is dealing with inflation, pollution and corruption.

Mr. Laurain said that in looking at the U.S. political situation and how that impacts the economy, there are two big areas (fiscal policy and monetary policy) that politics impact capital markets. Fiscal policy is about taxing and spending. He said that the market responded very favorably after the election because of the idea of getting tax reform and infrastructure spending.

He explained that monetary policy is the Fed trying to determine what level of interest rates will balance full employment and stable prices. They bumped up Fed funds by 25 basis points in December 2015, another 25 points in December 2016 and another 25 points in March 2017. Their goal is to get Fed funds from where it is today up to about 3% in 2019 or early 2020. The Fed keeps an eye on what is going on in the economy and what goes on with employment.

Mr. Laurain said that the U.S. economy is plugging along, it is not rapid fire and it is not going backwards.

Mr. Laurain spoke about the 5-Factor Framework, stating that the General Economic Backdrop is still green, Market Trend is green, Availability of Credit is yellow, Investor Sentiment is red and Valuation is red.

Mr. McBee continued the review of *Chris Low's Economic Forecast*, updated as of March 24. He has the GDP at 3% for 2018 (some improvement in growth). In 2017, he has GDP ending at 2.7% and in 2016 ended at 1.9%.

Mr. McBee pointed out Mr. Lowe's recession risk (he looks at current environment). In 2017 he predicted 5%, 15% for 2018 and 20% for 2019.

Mr. McBee said it is still a plow horse kind of economy (sluggish), not really steaming ahead but not going backwards. He pointed out that the Fed funds rate at 2018 is 2.00% and they want to get it to 3% by 2019.

CAPITAL MARKET ASSUMPTIONS: Mr. McBee said that there is a slight decrease, from 5.11 in 2016 to 4.98 in 2017. These are 10-year forward looking returns.

PERFORMANCE as of March, 2017. The total fund was \$61,329,956. Total fund return for January was 1.32, February was 2.05 and March was 0.35. The 3Q was 3.75 versus 3.53 for the benchmark. FYTD is up 6.51 versus 7.65 for the benchmark. A lot of the underperformance is still the international funds. Mr. McBee said the MFS International Value and Oppenheimer International Growth are the two developed foreign funds in the portfolio and while their long term performance has been stellar, in the top 1%, they have underperformed for the last year.

As of May 10, 2017, the FYTD (for total fund) is up 8.16 and the first quarter of this year is up almost 4%.

Mr. McBee added that looking at the inception number, 9 years, 9 months, it is at 5.70 versus the 4.48 benchmark. The 3 year is at 5.00 and 5 year is 7.25.

Mr. Krock asked if there has been discussion among other clients of changing their asset allocation or is it being addressed on the term of the bonds.

Mr. McBee said they are addressing it on the term of the bonds.

Mr. Laurain added that they stay within the guidelines of the client's investment policy statement. He added that once an allocation is in place, in this case 60/40, they are not going to change that radically (they might shift a bit but never by more than 5% or so). They implement the investment policy statement.

Ms. Fletcher advised that if that is something the committee wanted to consider, being a bit more aggressive, they can show what the difference in expected returns would be and how much

the additional risk would be.

Mr. Laurain said that other clients are starting to lower their return expectations to reflect current capital market conditions. He said they do not see too many people to take additional risk however. It is easier to forecast risk than it is to forecast returns. He emphasized that the idea that just because expected returns are lower does not mean expected risk is lower. In fact, they think risk is creeping higher rather than going lower in the low returning environment.

Mr. Laurain added that they will not be increasing the equity allocation just because of lower bond returns unless there is a change in the investment policy statement.

Mr. Krock asked if other clients talk about changing their allocation policies.

Mr. Laurain stated not very often.

ASSET ALLOCATION: Mr. McBee said that as of March 31, 2017, Cash has a target of 2.00%, but is a little over at 0.61%, which is within range.

Fixed income target is 40% and that includes the 2.00% for cash. It is a little underweight at 38.88%.

Target for Equities is 60% and it is slightly overweight at 61.12. This is within range.

HISTORICAL SUMMARY: As of March 31, 2017, shows the contributions distributions and investment gain and loss in the market value ended QE 03/31/17 with \$61,659,850.

Cash Management Plan (at QE 03/31/17) ended at \$329,894.

The performance for quarters, QE 03/31/17 is up 3.75, QE 12/31/16 was down 0.22 and QE 09/30/16 was up 2.88.

EXPENSE SUMMARY: Ms. Fletcher said the cumulative expense ratio within the funds is at 0.30 basis points and the other expenses were 0.24 basis points YTD. She said we are 75% of the way through the year and with expenses of 0.54 basis points, that is pretty efficient given the performance and all of the investments and all of the expenses that have come out.

Mr. McBee said this concludes their report.

Brief discussion ensued regarding REITS exposure.

ACTUARIAL SERVICES (DEFINED BENEFIT PENSION PLAN) CONTRACT RENEWAL WITH ELLIS & WARD CONSULTING GROUP, INC. (Presentation by: Mark Krock, Finance Director)

Ellis & Ward Consulting Group, Inc. has provided actuarial services for the Town of Collierville Pension Plan since 2012. They have consistently performed these services timely and provided

additional support when requested.

The professional services provided by Ellis & Ward Consulting Group includes annual actuarial valuations of the plan, providing GASB calculations, and providing annual employee (active) benefit statement. The proposed annual fee is \$18,650. This represents an annual increase of approximately 6% from the 2012 contract reflecting the significant increase in financial statement disclosure requirements related to pension plans. In addition to the annual fee, each certified retirement calculation for retiring employees is \$325. The proposed term is for three years beginning July 1, 2017.

Motion by Mr. Reichert, seconded by Mr. Krock, to recommend the renewal of a three year professional services contract (July 1, 2017 – June 30, 2020) for actuary services for the Town of Collierville Defined Benefit Pension Plan with Ellis & Ward Consulting Group, Inc. to the Board of Mayor and Aldermen.

ROLL CALL: Gardiner – yes, Reichert – yes, Krock – yes, Jeffries – yes, Joyner – yes.
Motion approved.

RENEWAL OF CONTRACT WITH FIRST TENNESSEE NATIONAL BANK ASSOCIATION (Presentation by: Mark Krock, Finance Director)

In May of 2007, the Board of Mayor and Aldermen approved a contract with First Tennessee to provide financial advice and trustee services for the Defined Benefit Pension Plan (Pension). As trustee, First Tennessee keeps a record of all assets in the Pension and OPEB accounts, collects all dividends and interest income, makes cash distributions to retired employees and others, and sends appropriate tax forms to retired employees on an annual basis. As financial advisor, First Tennessee assists the Pension/OPEB Committee in adhering to adopted investment policies and provides quarterly reports of investment returns and updates to the Pension/OPEB Committee.

The contract does not specify a contract duration period but states the agreement may be terminated at any time by either party with 30 days advance written notice. However, the Town has elected to formally renew these contracts on an annual basis.

The fee to provide both financial advisory and trust administration services is based on a percentage of the total investment value of the Pension portfolio. The Pension portfolio value as of March 31, 2017 was \$61,659,850 and the fees through Q3 (July 2016 – March 2017) were \$119,791. The fees are paid directly from the Pension account after staff reconciliation and approval.

Mr. Reichert asked if the committee had considered another outside proposal during this 10 year period of time.

Mr. Krock said that about 3 years ago, PFM did a review of what has been offered and the result was that for the services the Town is getting from First Tennessee, that these are very reasonable.

Mr. Reichert said he thinks 0.54 basis points is very reasonable.

Mayor Joyner stated that with the volatility of the markets, it would concern him with moving the portfolio from someone who has a track record with the Town to somebody else.

Mr. Krock said that one of the factors in Finance is that First Tennessee is not generating any issues with retirees. They are doing what they are supposed to do.

Motion by Mayor Joyner, seconded by Mr. Krock, to recommend renewal of the Professional Services Agreement for financial advisory and trust administration Services for the Town of Collierville's Defined Benefit Pension Plan with First Tennessee to the Board of Mayor and Aldermen.

ROLL CALL: Gardiner – yes, Reichert – yes, Krock – yes, Jeffries – yes, Joyner – yes.
Motion approved.

Ms. Fletcher said that First Tennessee appreciates the people they work with on the Plan as well and they are glad to hear the retirees have no issues.

OTHER BUSINESS

Mr. Jeffries presented a Certificate of Appreciation to Mr. Gardiner for his ten years of service on the Pension Committee.

ADJOURNMENT

There being no further business, the meeting adjourned at 9:50 a.m.

Chairman

Town Clerk