A regular meeting of the **Pension Committee** was held August 21, 2014 at 9:00 a.m. in the Administration Conference Room at Town Hall, 500 Poplar View Parkway.

The following members were present: Dick Gardiner, Stan Joyner and Jay Jeffries. Absent was Jane Bevill.

Staff present was James Lewellen, Pension Attorney Frank Carney, Lynn Carmack, Marc Pendley, Cindy Greer and Josh Suddath. Also present was Alan Ferguson and Susan Fletcher of First Tennessee Bank.

Mr. Jeffries called the meeting to order at 9:20 a.m.

APPROVAL OF MINUTES

Motion by Mr. Joyner, seconded by Mr. Gardiner, to approve the minutes of the May 15, 2014 meeting.

ROLL CALL: Gardiner – 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 (Alan Ferguson and Susan Fletcher)

**Susan Fletcher joined the meeting at 9:35 a.m.*

Mr. Ferguson began the presentation with Chris Lowe's economic forecast.

Mr. Ferguson said that the new forecast pushes a rate increase (by the Fed) to the middle part of 2015. Mr.Ferguson explained the steps of how the consensus reached this conclusion.

Mr. Ferguson pointed out that when inflation is close to the Fed's 2% target and the economy is close to full employment, the Fed is likely to start to raise rates a little sooner than it would otherwise.

Next, Mr. Ferguson talked about the Defined Benefit Plan numbers and the five factor framework, stating the macroeconomic background is positive; market trend is positive even with a negative in July; liquidity is still positive; market psychology has been negative, but is now at the 50% level; and the valuation on the market is fairly valued.

The DB Plan finished the fiscal year up 16.02%, with a target of 7.5%.

Mr. Ferguson does not recommend any changes (still 60% stock, 40% bonds).

First Tennessee's Response to the Pension and OPEB Plan Analysis by PFM Advisors

Mr. Ferguson stated that he met with Mr. Carney and discussed PFM's assessments in the report.

Mr. Ferguson referred to page 28 of the recommendations (in the PFM report) regarding the Investment Policy.

Mr. Ferguson stated that the Investment Policy was written in 2007 and it is time to revisit it again. Mr. Ferguson and Ms. Fletcher will meet with Mr. Carney and have something ready for the next quarterly meeting.

Mr. Ferguson asked Mr. Carney to address the piece about the OPEB Trust (implementing a separate Investment Policy)

Mr. Carney said that one of the things suggested in the PFM report was to have a separate OPEB policy. The State Statute says there are three ways you can invest OPEB funds: one is in the same investments permitted to domestic life insurance companies (as an aside, Mr. Carney noted probably no one would want to figure out how that works or monitor it unless they were very familiar with investments by domestic life insurance companies); two is according to your pension policy; and three is according to the way TCRS invests its money (Mr. Carney noted someone would have to track that too). So, most plans with which he is familiar have elected to invest according to the pension policy.

Mr. Carney recommended that having the OPEB Trust adopt the Pension Policy (which is what the OPEB Committee did) is appropriate. As long as it is clear in the minutes that it is adopting the Pension Investment Policy for OPEB, it fits the State Statue. He noted that he coud copy the Pension Policy and retitle it OPEB Policy and the Committee could adopt that identical policy separately. But when the Committee adopted the OPEB Investment Policy, it formally adopted the Pension Investment Policy as the Investment Policy of the OPEB Trust. This action was done by Resolution 2009-30. In later minutes the Committee did establish some different targets for the OPEB Trust but within the same investments and same ranges as within the Pension Investment Policy. So the Committee is in compliance with the statute. While Mr. Carney noted the Committee could adopt a "separate" document, that was not required by the statute. What is required by the statute is that the OPEB Trust be invested in accordance with the Investment Policy of the Pension Plan. That the Committee has and does do. Mr. Carney did not suggest that there was any requirement to adopt a "separate" document from the Pension Investment Policy and the Committee could continue under Resolution 2009-30 if it wished.

Mr. Jeffries said that seems to make the most sense.

Mr. Carney said if the State Comptroller ever audited the OPEB Fund, they are going to see that the Committee did exactly what the statute says.

Mr. Jeffries asked if there should be a motion to adopt that philosophy.

Mr. Carney said it has already been done.

Mr. Lewellen said it is already pretty clearly written that we will invest according to the pension plan

Mr. Carney agreed, stating that the Committee has changed targets from time to time (reflected in the minutes), so there might be a slightly different target in the Pension Plan than in the OPEB Plan, but the ranges are the same.

Ms. Fletcher said she understood that PFM did not read through all of the minutes where some of the issues were actually addressed.

Mr. Carney said there are a lot of things PFM did not analyze (minutes, resolutions, other action materials). Those were listed in his report.

Mr. Ferguson said that capital markets assumptions are put out every quarter, and that we beat our target of 7.5% last year, which is tough to do given our capital market assumptions.

Mr. Ferguson stated that he thinks we are okay there, but that Richard Ellis will be here next quarter and we just need to make sure that is something that is reviewed and he is aware of it.

Mr. Ferguson said they manage this account just like they manage a lot of their other accounts. It is the same investments but it is a unique solution based on investment policy statement and goals.

In regards to brokerage fees (in the PFM report), First Tennessee does not self clear. When they trade stocks it is a nickel a share. First Tennessee does not get any of that money, it just covers the cost. They trade everything electronically.

Mr. Ferguson said that when you read their language, it will say "best execution".

Mr. Ferguson explained that when they trade stocks, he has a Bloomberg machine; a lot of times when he is trading, he is watching the stock he is trading, and they get the market price. It is not an issue.

Mr. Ferguson said that he is blind to what market maker gets that trade and he does not have any control over it; everyone is treated the same and there is no incentive for First Tennessee to do anything.

The bond side is a bit different but fairly similar. If they have to buy a bond or a CD, they go to the trade desk and put out their requirements. They trade dealer to dealer, so there is no mark up from any middle man. They come back and say here is what is available in the universe that meets your requirements (which one do you want us to purchase). They go out, conduct the transaction and then send a ticket. Only then does Mr. Ferguson know the dealer that it came from.

Mr. Ferguson stated that he utilizes the Bloomberg network pretty extensively. They are trading from Citigroup in New York to the people out on the west coast, so he has no control over that. Mr. Ferguson said that from that perspective they try to keep their costs down as low as possible And they do not direct any trades anywhere.

Mr. Ferguson concluded his address of the PFM report by stating that the PFM report talked about costs at the very end and that the plan is below average in terms of cost and performance.

Mr. Ferguson asked if the Committee had any questions.

Mr. Gardiner asked if First Tennessee has a fee for what they manage. Mr. Ferguson stated yes.

Mr. Gardiner asked if they have a number of their funds that are in mutual funds. Mr. Ferguson stated that is correct.

Mr. Gardiner asked if First Tennessee charges the same amount for mutual funds as for their own investments in the fund.

Mr. Ferguson stated yes, because their management fees apply globally. He explained that on the funds side, they use institutional shares so they are accessing the cheapest share possible.

Mr. Ferguson added that when they utilize a mutual fund, they may not be able to meet a particular fund minimum in a given account, but they aggregate everything to drive that cost down. They monitor the weighted average cost on their models in terms of what we are doing.

Ms. Fletcher stated that the other thing the PFM report mentioned was performance reporting. Ms. Fletcher pointed out that in the portfolio holdings report today, they have added performance as well. You will see a fourth quarter and a fiscal year to date on the far right so that you can look at each holding and see what kind of performance that has contributed to the portfolio.

Mr. Joyner asked if the historical return year to date is 3.45%.

Mr. Ferguson stated that is for the quarter.

Ms. Fletcher referred to page 2 that shows the year to date is 6.3%.

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

Chairman

Town Clerk