A regular meeting of the Pension Committee was held on Thursday, August 8, 2019 at 9:00 a.m. in the Administration Conference Room at Town Hall, 500 Poplar View Parkway.

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

Staff present was Pension Attorney Frank Carney, Town Administrator James Lewellen and Town Clerk Lynn Carmack. Also present was Susan Fletcher and Ryan Miller of First Tennessee Bank.

Mr. Jeffries welcomed new member, Preston Carpenter, to the meeting.

Approval of Minutes

Motion by Mayor Joyner, seconded by Mr. Krock, to approve the minutes of the May 9, 2019 meeting.

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

Review of the Quarterly Investment Performance of the Collierville Defined Benefit Pension Plan by Financial Advisors - First Tennessee Bank (Ryan Miller and Susan Fletcher)

Mr. Miller gave a brief recap of happenings during the fourth fiscal quarter, stating that the roller coaster continued. There were good months and some bad months. April was a good month, May was a very rough month and June was a great month.

In May, there were concerns over inflation turning into deflation, which could lead to a recession. Another concern was over slowing global growth and tariffs and trade wars.

FIVE FACTOR FRAMEWORK:

Economic Growth is flashing red because economic growth was slow over the past several months. Jerry Laurain, Chief Investment Officer, did say that on July 26 this went over into the green; but, it was red through June.

Market Trend is flashing green right now, following the worst May in 7 years. The market rebounded strongly in June.

Monetary Conditions is yellow; it is not necessarily the determining factor, but it is an indicator of an impending recession that could come anywhere between 6 months to 3 years down the road.

Investor Sentiment and *Valuations* are both flashing red and that is basically because people have been more greedy than fearful and that is an indicator that there is less room for the stock prices to run going forward.

ECONOMIC FORECAST: Chief Economist, Chris Low, puts this together (last updated June 28, 2019).

Chris sees the GDP growth slowing throughout the remainder of this year; he sees the unemployment rate decreasing a bit more in Q3 and staying put around 3.6% for the following quarters; he sees inflation decreasing through the end of the year, all the way down to 1.4%, we are currently at about 1.6% or 1.7%; Federal funds rate recently saw a 25 basis point pull back and Chris thinks there might be another pull back (totaling 75 basis points) between now and the end of Q3 and then staying around 1.75% for several quarters thereafter. He sees the recession risk over the next 12 months at a 35% probability and over the next 24 months at 40% probability.

CALLAN PERIODIC TABLE OF INVESTMENT RETURNS: this explains the monthly returns over the past 12 months for the various sub asset classes.

There has been a good deal of movement but overall through June, Large Caps and U.S. Fixed Income have led the way and Emerging Markets and Small Caps have under performed their sub asset classes.

IPS GUIDELINES & CAPITAL MARKET ASSUMPTIONS: *this shows allocation targets, the acceptable ranges of variants from those targets and the expected rates of return.*

The DB portfolio targets a 40% allocation to fixed income and a 60% allocation at equities.

The new 2019 Capital Market Assumptions have come out and are included alongside the 2018 assumptions. The assumptions for both fixed income and equities have increased. The return assumptions for equities has increased by 37 basis points and it is now 4.25; the return assumptions have increased for fixed income by 6 basis points and that is now 1.25. Overall, the total long-term return assumption is now 5.50; that is an overall increase of 43 basis points versus the 2018 expected returns, which were 5.07.

Mr. Miller pointed out that these are long term return assumptions with a 10+ time horizon.

MARKET VALUE AND PERFORMANCE:

The portfolio is up 2.46 in April; May was down -3.29; June was up 4.47; overall for Q4 the portfolio was up 3.51; FYTD it is up 7.31; over the past 3 and 5 year periods, the portfolio annualized at 7.86 and 5.68 respectively; since inception, going back 12 years, the portfolio has out performed the blended benchmark, annualizing returns at 6.04 versus 5.01 blended benchmark.

Despite considerable volatility over the past year, the portfolio has been resilient and continues to beat its blended benchmark.

Mr. Miller pointed out more recent performance since the end of June: July was a positive month, the portfolio was up 77 basis points; August was a rough month and was down -1.62%; overall for the FYTD, covering 2 months approximately, it is down 86 basis points.

ASSET ALLOCATION: *this page details the dollar and percentage amount of each asset class and sub asset class as of June 30, 2019.*

The total cash and fixed income, at the end of the quarter, is $30,128,378. That represents 39.53 share of the portfolio with a variance of -0.47 basis points under its target.

The equities portion had a value of $46,096,285, which represents 60.47 of the portfolio, that equals a variance of 0.47 basis points over target. The total portfolio balance, at the end of June, is $76,224.662.

Overall, the allocations are right in line with where it needs to be.

HOLDINGS AND PERFORMANCE: this helps detail the performance of the individual underlying holdings in the portfolio for the last three months and the FYTD.

Q4 was a very respectable quarter across the board for the various sub asset classes. The Broad U.S. Bond Market continued as a positive trend during the quarter and as a result, the taxable fixed income managers in the portfolio performed well.

In response to the caution tone from the Fed and the likelihood of rate cuts, investors demanded longer maturity bonds. Consequently, longer maturity bond funds out performed the shorter maturity funds in the portfolio.

The Corporate Bonds in the portfolio were all meaningly positive for the quarter as well.

The US Treasuries and Agencies, along with the Taxable Muni Bonds and International Bonds, all were positive for the quarter too.

Common Stocks enjoyed a very good quarter, with the Large Cap Core Model Composite returning nearly 4.5% for the quarter; the S&P 500 returned 4.3% during the same period.

FYTD, the composite through June was up 19.81% versus 18.54 for the S&P 500; it out performed by 127 basis points.

About 70% of the positions in the Common Stock portfolio experienced positive returns for the quarter. The top 3 detractors were Kohl's (down nearly -30%), National-Oilwell (down over -16%), and Walgreens Boots Alliance (down nearly -13%). All of these were affected by disappointing Q1 earnings reports.

The top 3 contributors to the portfolio were Walt Disney (up over 25%), L3 Technologies (up 19%) and Manpower Group (up over 18%).

Mr. Miller said the only change in the Common Stock portfolio was the selling out of Boeing at the beginning of May and replacing it with Northrop Grumman after earning a considerable return of approximately 185%.

No other changes were made to the Common Stock portfolio during the quarter and none are anticipated at this time.

The Domestic Equity Managers enjoyed a strong quarter. Overall, the growth funds continued to out perform value funds. Mid Cap Stock Funds led the pack, followed by Large Cap Funds and then Small Cap Funds. Mid Cap Growth was the best performing style for the quarter with its representative benchmark up 5% for the quarter and it was up 26% YTD.

Financial names represented the best performing sector for the quarter returning about 8%; materials and information technology had a strong quarter as well, each up over 6% and then energy was the only sector that coasted negative returns for the quarter falling -2.8%.

No changes were made to the Domestic Equity Managers portfolio during the quarter and none are expected at this time.

The International and Emerging Markets Manager continues to enjoy a much better year than they experienced last year, with all 3 funds up. Emerging Markets is measured by MSCI Emerging Market Index. China had been the best performer last quarter but fell 4% on slowing growth and trade tension concerns; the stand out performer this year in the EM space is now Russia, which rallied 17% during the second quarter and is now up 31% YTD.

HISTORICAL SUMMARY:

Ms. Fletcher said at the end of the quarter, 6/30/19, the market value total is $76,580,743; gains over 12 years is $32,606,405, which is very impressive.

CASH MANAGEMENT ACCOUNT:

Ms. Fletcher said that $125,000 was moved over into the investment account and as of 6/30/19, there is a balance of $356,050 (before the pensions were taken out on 7/1).

Ms. Fletcher said the $125,000 was put to work; the ending value is $76,224,693. She said that looking over the last 4 years, the 7.31return (on 6/30/19) number is looking pretty good.

EXPENSE SUMMARY:

Ms. Fletcher said the mutual fund weighted expense came in at 32 basis points for the year; the market value fee (which is First Tennessee's fee) is 25 basis points; other expenses came in at 0.04; and expenses paid directly out of the plan were 28 basis points. She pointed out that expenses across the board are about 60 basis points, which is very reasonable.

There were no other questions or comments.

Adjournment

There being no further business, the meeting was declared adjourned at 9:25 a.m.

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Chairman Town Clerk