A regular meeting of the Pension Committee was held on Thursday, February 13, 2020 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 Attorneys Frank Carney and Elizabeth Friary, Town Administrator James Lewellen and Town Clerk Lynn Carmack. Also present was Susan Fletcher and Ryan Miller of First Horizon Bank.

Approval of Minutes

Motion by Mr. Carpenter, seconded by Mayor Joyner, to approve the minutes of the November 14, 2019 meeting.

ROLL CALL: Carpenter – yes, Jeffries – abstain, 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 Horizon Bank (Ryan Miller and Susan Fletcher)

Mr. Miller gave a brief recap of 2019, stating that 2019 was a whirlwind year, there was a lot of Volatility (but it was better than 2018). Major concerns driving the volatility were concerns over trade wars and trade tariffs with China. There were concerns over interest rates and what the Fed was going to do next; there were concerns about impeachment, political instability in Washington and concerns about Brexit. There were concerns over impending recession because the 10 year and the 2 year Treasury inverted for a few days back in August. Some people were worried about the recession problem. Beyond that there were concerns over an overall slowing global economy.

Mr. Miller said that despite all of these things, the S&P 500 still managed to be up over 31.50 percent for the year. International Equities did well; they were up over 22 percent; Emerging Markets were up over 18 percent; and Bonds had their best year in 17 years; they were up over 8.50 percent.

Mr. Miller said that it was a great year for investor portfolios, and it was also a really great reminder of how when you have a terrible year, the next year you do not want to get out of the market completely and you do not want to lower your equity exposure either because you just never know when the market is going to snap back up.

FIVE FACTOR FRAMEWORK: this was created by CIO, Jerry Laurain and gives a brief snapshot of what has been going on. It is not to predict anything.

Economic Growth has been positive and is flashing green.

Market Trend of the S&P 500 has been positive relative to its 12 month moving average and is flashing green.

Monetary Conditions touches on the 10 year and the 2 year Treasury; it has been a concern for quite some time, and it remains yellow. As of 2/12/2020, the spread between the 2 year and the 10 year treasury is 18 basis points.

Investor Sentiment and *Valuations* have both been high and that is due to investor greed; both are flashing red.

ECONOMIC FORECAST: Chief Economist, Chris Low, puts this together (last updated January 10, 2020).

GDP Growth: Chris sees GDP Growth in Q4 coming in around 2.6%; that is about a half percentage point higher than Q3; overall he sees growth for 2019 averaging out to about 2.5%; that is greater than the historical GDP growth average seen over the last 10 years, which was 2.3%. Going forward, Chris is seeing promising signals of economic growth ahead; as a result the growth predictions are up in 2020 to 2.8% and 2.9% in 2021.

Unemployment Rate: Chris sees unemployment remaining low and staying put around 3.50% for the next several years.

Core PCE (personal consumer expenditures): That is the Fed's preferred indicator of inflation. Chris sees inflation trending slightly lower in Q4 (1.6%) and then popping back up in Q1 (1.8%) of 2020 and slowly trending downward again through the end of 2020. Overall, he sees inflation remaining low and staying around 1.5% to 1.6% over the next 2 years.

Federal Funds Rate: There were three rate cuts in 2019, of 25 basis points each, total of .75%. Chris does not expect to see any rate changes in 2020 but he does see one rate cut coming in Q1 of 2021. The overall takeaway is that Chris sees interest rates remaining low for the next two years.

Recession Risk: Chris has lowered his probability assessment of an impending recession by 40% since he published his September 20, 2019 forecast. He now feels that the probability of a recession in the next 12 months is 25% and in the next 24 months is 30%.

Mr. Miller said this is a considerable change and it is an encouraging sign that there might not be a recession for several more years.

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

Mr. Miller explained that this gives some perspective on the volatility of individual sub asset classes on a month by month basis.

He said that there was quite a bit of movement during the first 7 months of the fiscal year. Overall, Large Cap Equity and Real Estate have been the top performers. Emerging Market Equity and Global Fixed Income, excluding the U.S., have appreciated the least, but still positive.

Mr. Miller pointed out that all of the asset classes have been positive for the fiscal year so far.

He said the moral to the story is you do not want to bank on just one or two sub asset classes and put all of your eggs in one basket. Instead, you want a diversified portfolio with several sub asset classes that will help mute out the volatility and provide a smoother return stream long term.

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.

Expected returns have remained the same; overall, 5.50 of the expected rate of return for the next 10 years.

MARKET VALUE AND PERFORMANCE (as of 12/13/19):

The portfolio is up 1.34 in October; up 2.00 in November, and 1.91 in December; overall for 2Q is up 5.34; FYTD is up 6.67; over the past 12 months, the portfolio returned a staggering 21.03 percent; the past 3 year and 5 year time periods have annualized at 9.25 and 6.68, respectively, and since inception going back 12 years, 6 months, the portfolio has outperformed the blended benchmark, annualizing returns at 6.34 percent versus 5.30 percent (out performance by over a percent).

Mr. Miller said the portfolio continues to perform very well and it has out performed its blended benchmark in 7 of the 9 investment periods listed in the account review.

Mr. Miller pointed out more recent performance for the FYTD return is now 9.56 percent for the portfolio.

ASSET ALLOCATION: *this page details the dollar and percentage amount of each asset class and sub asset class as of 12/31/19.*

The Total Cash and Fixed Income was $31,628,228 at the end of the quarter. That represents a 38.56 percent share of the portfolio and a variance of -1.44 percent under target.

The Equities portion total is $50,399,644; that represents 61.44 percent of the portfolio and a variance of 1.44 percent over the target. This slight variance from target is a result of the strong uptick in the equity markets.

Overall, the allocation is right in line with where it needs to be.

The total portfolio balance at the end of December, 2019 was $82,027,872. This total value represents a nearly fifteen and a half million dollar increase since the same time last year.

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

Taxable Fixed Income Funds of the portfolio have all enjoyed a positive quarter, with the exception of one that was slightly down. Aggregately, these funds were up 67 basis points for the quarter. In addition to that, they performed well overall for the FYTD, aggregately up 2.29 percent.

Mr. Miller pointed out that there were no changes to the fixed income managers lineup during the quarter.

Corporate Bonds in the portfolio were almost all positive for the quarter with the combined performance of 99 basis points; for the FYTD, they are up 2.45 percent.

Taxable Muni Bonds, along with the Certificates of Deposit. were all positive for the quarter with the exception of one muni. Overall, the munis were up 27 basis points and the CD's gained 55 basis points. For the FYTD munis were up 1.38 percent and the CD's were up 3.06 percent.

Domestic Equities markets did well in October, November and December, thanks to improved economic pictures and alleviated trade tensions.

Information technology and health care were the best performing sectors during the quarter. Both returned 14.4 percent. Real estate and utilities were both the laggards as yields rose and risk taking increased. Real estate was down half a percent and utilities were up only .08 percent.

The notable year-to-date under performer was Energy which returned only 11.8 percent despite a surge of 34 percent and the price of West Texas Crude.

Common Stocks enjoyed a very good quarter. The composite (of the 50 stocks) returned a very strong 7.38 percent. It still trailed its relative benchmark, the S&P 500, which returned a very strong 9 percent during the same period.

For the whole year of 2019, the Common Stock composite (through 12/31/19) was up 34 percent versus 31.5 percent for the S&P 500; it out performed by over 250 basis points.

The top 3 detractors of the stock portfolio were Northrop Grumman (down 7.9 percent), Travelers Companies (down 7.3 percent) and Darden Restaurants (down 7 percent).

The top contributors were Apple (up nearly 32 percent) for the quarter, Best Buy (up 28 percent) and Biogen, Inc. (up 27.5 percent).

There were no changes in the Common Stock portfolio for the quarter, however there was a ticker change. There was a merger between Suntrust and BB&T. The portfolio held BB&T prior to the merger and the ticker change is now called Truist and their ticker is TFC.

The Domestic Equity Managers performed exceptionally well for the quarter and also FYTD. For the quarter, growth investments continued to trump value but for a change of pace, smaller companies out performed larger companies. Micro Caps and Small Cap growth rallied 13.5 percent and 11.50 percent, respectively, while Mid Cap and Large Cap value stocks were up only 7 percent.

For the year 2019, overall, Large Cap Growth continued to dominate as the top performing equity style. It was up 36.4 percent while the Mid Cap Growth followed at a close second, up 35.5 percent.

No changes were made to the Domestic Equity Manager lineup during the quarter.

International Emerging Markets had a very strong quarter and they have also done well during the fiscal year so far.

The two main reasons for the rally are improved global economic data and advancements in trade negotiations.

International markets, measured by the MSCI Efi Index, were up about 8.2 percent for the quarter.

For the year 2019, International Growth out paced International Value by over 11 percent, which is the largest calendar year deficit between the two ever.

Emerging Markets, measured by the MSCI emerging market index, were up 11.8 percent for the quarter, beating the S&P 500's 9 percent.

Overall, no changes were made to the International or Emerging Markets Managers for the quarter.

HISTORICAL SUMMARY:

Ms. Fletcher pointed out that cash flow contributions coming into the Pension Plan was $748,263; distributions are $501,125; net contributions and distributions are $247,138; miscellaneous disbursements (expenses, legal fees, actuarial fees, etc.) is $75,926; and investment gain/loss of $4,142,985. The ending market value is $82,387,667.

CASH MANAGEMENT ACCOUNT:

This shows the transfers that were made over to the investment portfolio. The net transfer was $400,000; that was invested in the market that helped produce the $4,140,930 in earnings.

EXPENSE SUMMARY:

Expenses are continuing to run very low. The mutual fund weighted expense ratio is 0.16 and expenses paid are also about 0.16.

Ms. Fletcher said the plan is about 32 basis points through half the year, so good numbers!

There were no questions or comments.

Adjournment

There being no further business, the meeting was declared adjourned at 9:20 a.m.

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Chairman Town Clerk