A regular meeting of the Pension Committee was held on Thursday, May 9, 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 and Stan Joyner.

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

Approval of Minutes

Mr. Jeffries pointed out a typo on page 2, paragraph 5, the word "*change*" should be "*chance*".

Motion by Mayor Joyner, seconded by Mr. Reichert, to approve the minutes of the February 21, 2019 meeting, with the correction noted.

ROLL CALL: Krock – yes, Jeffries – 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)

FIVE FACTOR FRAMEWORK:

Economic Growth factor has been slowing, according to the weekly indicator, since October. In April, the indicators have changed course and they are now flashing green.

Market Trend factor is tied to the S&P 500, which has been strong relative to its average performance over the last 12 months. It is flashing green as well.

Monetary Conditions factor is tied to the yield curve inversion concern between the 10-year and the 2-year treasury. Current spreads are .16 basis points. As long as it does not invert, this remains in the caution world of yellow.

Investor Sentiment factor and Valuations factor are both flashing red as a result of the aggressive buying appetite of investors lately.

ECONOMIC FORECAST:

Chief Economist Chris Low updated this March 8, 2019.

GDP growth is expected to slow during the next 3 quarters; Chris was predicting 0.5 GDP growth, but it came in at 3.2.

Unemployment rate has continued to go down and has bottomed recently at a 1963 low. It is expected to remain at these historic lows for the foreseeable future.
Core PCE is the same as inflation, but it is stripping out energy prices and food costs. Core PCE is below the Feds' 2.0 target right now and that is expected to remain below 2.0 for the rest of this year.

Federal funds rate, the Feds have said they are not going to have any more rate increases this year and there is even an expectation of a pull back.

Recession risk for 2019 is 20% and for 2020 is 40%.

CALLAN PERIODIC TABLE OF INVESTMENT RETURNS:

This gives an idea, by month over the last 10 months, how different sub asset classes have been performing (July 1, 2018 through June 30, 2019; last 2 months are not included).

The FYTD encompasses all of the sub asset classes. Since July, the Large Cap Equity (10.14%) has been the best performer, followed by High Yield (6.35%). The worst performing is Small Cap Equity (down -2.08%).

IPS GUIDELINES & CAPITAL MARKET ASSUMPTIONS:

This is the allocation targets, the acceptable ranges of variants from those targets and the expected rates of return.

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

The 2018 capital markets assumptions have changed only slightly since the last meeting in February.

The expected long term return for 40% allocation of fixed income is still 1.19. Long term means 10 years or more.

The expected long term return for 60% allocation to equities has increased by 1 basis point to 3.88 (it was 3.87).

Mr. Miller said this change is the result of the investment team choosing, during the quarter, to reduce exposure to real estate. They felt that the portfolio was overweight a bit, on a look through basis, to real estate. So overall, that takes the total expected long term return from 5.06 to 5.07 (for 2018).

In 2019, the assumptions for fixed income, as well as equities, have increased. The return assumption has increased for fixed income by 6 basis points to 1.25 and the return assumption for equities has increased by 37 basis points to 4.25. Overall, the long term return assumption is now 5.5, which is an overall increase of 43 basis points versus 2018.

Ms. Fletcher said that it is nice to see the trend (of pull backs year after year) reversing and to see a bump up in these numbers.

MARKET VALUE AND PERFORMANCE:

The portfolio was up 5.88 in January; up 2.32 in February; up 1.17 in March; overall for the 3Q, the portfolio was up 9.61; FYTD is up 3.67; 1 Year is 4.64; 3 Years is 7.19; 5 Years is 5.67; and, since inception, 11 years, 9 months, the portfolio has outperformed the blended benchmark, annualizing returns at 5.86 versus 4.84.

Mr. Miller said that despite just coming off of the darkest investment quarter in 10 years, the portfolio has fully recovered and continues to beat its blended benchmark.

ASSET ALLOCATION:

This page details the dollar and percentage amount of each asset class and sub asset class as of March 31, 2019.

The Total Cash and Fixed Income was $29,209,767 at the end of the quarter. That represents a 39.73 share of the portfolio, with a variance of -27 basis points under target.

The Equity portion had a value of $44,309,740 which represents 60.27 of the portfolio. That equaled a variance of 27 basis points over target.

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

The total portfolio balance in March was $73,519,507, an increase in value since December 31, 2018, of over $6.9 million dollars.

HOLDINGS AND PERFORMANCE:

This helps detail the performance of the individual underlying holdings in the portfolio for the last three months and the FYTD.

3Q was a record quarter across the board for nearly all asset classes. The broad US Bond Market rallied during the quarter and as a result the taxable fixed income managers in the portfolio performed well, with Intermediate Term Bond Funds outperforming Short Term Bond Funds.

The Corporate Bonds in the portfolio were all meaningfully positive for the quarter, as investment grade corporate credit as a whole enjoyed the strongest returns it has seen since 2009.

US Treasuries and Agencies, along with Taxable Munis and International Bonds, were all positive for the quarter as well.

The Common Stocks, represented by investment teams' Large Cap Corp portfolio enjoyed a very good quarter with a composite returning nearly 14.5, outperforming its relative benchmark, the S&P 500, which returned 13.65% respectively during the same period.

Nearly all 50 positions in the Common Stock portfolio experienced positive returns for the quarter. The only exceptions were Amgen, Inc which was down -1.73, Walgreens was down -6.99 and Biogen Inc was down -21.99.

The only change in the Common Stock portfolio for the quarter was selling out of Union Pacific Railroad and replacing it with Illinois Tool Works. The investment team monitored a sell rating in our system for 5 consecutive months and finally determined a change was needed to be made. They had been following Illinois Tool Works for quite some time and this gave an opportunity to purchase it. No other changes were made in the Common Stocks for the quarter.

A change that happened in the Large Cap Corp (last week) is that Boeing Co has been replaced with a company called Northrop Grumman, a global defense contractor.

Domestic Equity Funds experienced a strong quarter with double digit performance enjoyed by nearly all small cap and mid cap stocks, which led the pack, followed by Large Cap Funds. Overall, Growth Funds outperformed Value Funds. Information technology names represented the best performing sector

for the quarter, returning 20.00; Industrials and Real Estate had a strong quarter as well, each up over 17.00, while healthcare and financials lagged the most, only returning single digits, but still positive.

Mr. Miller pointed out that the Vanguard High Dividend Yield Index fund had a relatively low return. He said that does not tell the whole tale. During the quarter, a new share class emerged for that fund, which was cheaper. The difference in the expense ratios was 15 basis points versus 8 basis points, so the investment team switched clients to the cheaper share class.

Mr. Miller said that with regards to the Equity Funds, the investment team decided that current exposure to real estate, on a look through basis, over the entire portfolio was too high, so to reduce the exposure, they sold out of Vanguard Real Estate Fund, which was in this portfolio; the proceeds were reinvested in the Large Cap Equities that were already in the portfolio.

The International and Emerging Markets Managers had a much better quarter than they had been experiencing last year with all three funds up double digits. International Managers (Italy, the Netherlands and Switzerland) led the way, while Japan, Germany and Spain trailed. Markets in Europe were resilient despite slowing economic data.

HISTORICAL SUMMARY:

This illustrates the historical market values of the portfolio going back to 2008. The value has risen considerably since inception. The last 3 values with the periods ending in September 2018, December 2018 and March 2019 show that despite the meaningful pull back in the markets at the end of 2018, the value is now above the pre pull back value. It is $72,330,223, going down to $66,910,105 and then back up to $73,640,503.

Ms. Fletcher added that when you look at investment gain/loss, you have net positive contributions coming in there. The $6,404,179, for this last quarter, more than covers the loss of the second quarter that we had at $5,613,361.

CASH MANAGEMENT ACCOUNT:

Ms. Fletcher said that $550,000 was moved over to the investment account for investment by the portfolio team, which closed with a cash balance of $120,972.

EXPENSE SUMMARY:

Ms. Fletcher expenses are in line with where they have been. FYTD on Mutual Funds, the weighted expense ratio is 25 basis points.

Other expenses are at 23 basis points.

Ms. Fletcher said it is running just under 50 basis points through 3 quarters, so it will clearly be under one percent for the year.

Mr. Miller said the FYTD performance, as of the end of March 2019, was 3.67 and as of the end of business on 5/8/19, it was 4.94. Going up a decent amount since the end of the quarter.

There were no other questions or comments.

Renewal of Contract with First Tennessee National Bank Association (Presentation by: Mark Krock, Finance Director)

The purpose of this agenda item is to recommend to the BMA the renewal of the contract for financial advisor and trust administration services for the Town of Collierville Defined Benefit Pension Plan with First Tennessee.

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, 2019 was $73,640,502 and the fees through Q3 (July 2018 – March 2019) were $141,366. The fees are paid directly from the Pension account after staff reconciliation and approval.

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: Krock – yes, Jeffries – yes, Reichert – yes, Joyner – yes. Motion approved.

Adjournment

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

Chairman

Town Clerk