A regular meeting of the Pension Committee was held on Thursday, November 14, 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, Gregory Reichert, Preston Carpenter and Stan Joyner. Absent was Jay Jeffries.

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 Horizon Bank.

Approval of Minutes

Motion by Mayor Joyner, seconded by Mr. Carpenter, to approve the minutes of the August 8, 2019 meeting.

ROLL CALL: Carpenter – 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 Horizon Bank (Ryan Miller and Susan Fletcher)

FIVE FACTOR FRAMEWORK: (through October)

Economic Growth – is based upon the growth rate of weekly indicators is green.

Market Trend – is based off of the S&P 500 and how it has been doing relative to its 12 month moving average is green.

Monetary Conditions – has remained yellow as recession concerns continue.

Investor Sentiment and Valuations – market psychology and price/earnings ratios, embedded sales expectations, both are red.

ECONOMIC FORECAST: Chief Economist, Chris Low, puts this together (last updated September 20, 2019).

The GDP growth is shown trending downward for the rest of the year at 1.8% for Q3, down from 2.0% in Q2; Q4 is down to 1.4%.

Mr. Miller said that averages out to 2.1% growth for the year; the average GDP growth over the last 10 years has been about 2.3%.

Mr. Low sees the unemployment rate staying put at about 3.7% for the rest of the year and then continuing throughout the rest of next year as well.

Core PCE (personal consumer expenditures) is the Feds favorite view of inflation. It takes out energy prices and food prices. It makes it less spikey and volatile and it gives, in their opinion, a more accurate sense of what inflation is.

Mr. Low was predicting that inflation would increase for the next few quarters, coming in at 1.7% for Q3; 1.9% for Q4; and 2.1% for the first two quarters of 2020. The Fed has a target of 2%, but it is still in the 1.7% to 2% range.

Mr. Low was seeing, back on September 20, that the Feds fund rate would be lowered by a full percent by the end of the year and then stay put at 1.5% for the next year and a half.

Recession risk: Chris Lowe is pegging a probability of a recession 45% over the next 12 months and 50% over the next 24 months.

Ms. Fletcher pointed out that the last June forecast from Mr. Low was a 35% probability of recession over the next 12 months and 40% over the next 24 months.

IPS GUIDELINES & CAPITAL MARKET ASSUMPTIONS: 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 2019 expected returns, which came out this past May, were bumped up a bit for the 2019 year; those have not changed since the committee last met. For a 60/40 portfolio, the expectation is 5.50% annualized rate of return; that is long term over a 10+ year time horizon.

MARKET VALUE AND PERFORMANCE: shows what the performance of the portfolio in its respective sub classes have done through September 30, 2019.

July, August and September show positive 77 basis points, negative 68 basis points and then positive 1.18; collectively, that resulted in a first fiscal quarter of 1.26% relative to a 0.63% blended benchmark; the 1 year, 3 year, and 5 year have all been positive as well, each beating their respective blended benchmark; and inception (12 years, 3 months), the portfolio has annualized at 6.02% versus 4.96% for its benchmark.

Mr. Miller noted that the portfolio is doing a good job.

ASSET ALLOCATION: details the dollar and percentage amount of each asset class and sub asset class as of September 30, 2019.

Total fixed income was $30,953,426; that came in at 39.95%. That is 5 basis points shy of the target of 40.00, so that is a very small variance; it is very much in line with targets.

The total equity and real estate were $46,535,226; it came in at 60.05%. That is just a 5 basis point variance from the 60.00 target.

The dollar amount in the account at the end of September was $77,488,652.

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

1Q was a mixed quarter for the respective sub asset classes in the portfolio, but overall, it was still positive.

All of the Taxable Fixed Income Managers in the portfolio performed well during the quarter and were aggregately up approximately 1.61%.

Mr. Miller pointed out one change to the fixed income manager lineup during the quarter and that was a switch in share class for the Western Asset Core Plus Bond fund (switched from WACPX to WAPSX because WAPSX is 3 basis points cheaper).

There were no other changes to the Taxable Fixed Income Fund Manager lineup for the quarter.

Corporate bonds in the portfolio were all meaningfully positive for the quarter, with a combined performance of approximately 1.44%.

The Taxable MUNI Bonds, the International Bonds, and the CD's were all positive for the quarter as well. MUNI Bonds were up 1.11; International Bonds appreciated about 1.34%; and, the CDs gained 2.50%.

The Common Stocks all enjoyed a very good quarter, with the composite returning approximately 3.21%, outperforming its relative benchmark. The S&P 500 returned 1.69% during the same period.

The Common Stock compositive, through calendar year Q3, was up 24.62% versus 20.55% for the S&P 500; through September, the Common Stock portfolio outperformed the S&P 500 by about 4%.

U.S. Equity Markets show strong returns for utilities, which were up 9.3%; consumer staples were up at 6.1%; energy stocks bounced around with oil prices and they ended up being the worst performing sector for the second quarter in a row, with a decline of 6.3%.

For the 2019 investment year, information technology remains the strongest performer, with a 31% return.

The top three detractors for the Common Stock portfolio were Manpower, which was down 12.8; Unum was down 10.5; and Cisco Systems was down 9.2.

The top three contributors were Target, which was up 24.2; Perrigo was up 17.8; and, Northrop Grumman was up 16.4. All three enjoyed strong second quarter earnings reports.

There were no changes in the Common Stock Portfolio for the quarter.

The Domestic Equity Managers have performed well over all. The market cap size during the quarter played a significant role in performance. Large Caps led the pack, followed by Mid Caps and then Small Caps.

Within the Large Caps space, growth and value performed about the same, in line with each other, but then in the Small and Mid Cap space, value significantly outperformed growth.

Mr. Miller noted that for the 2019 investment year, Mid Cap Growth continues to be the best performing style. The Russell Mid Cap Growth index was up over 25% YTD through the end of September.

There were no changes made to the Domestic Equities Managers lineup during the quarter.

The International Markets, which are measured by the MSCI Efa Index, were down about 1.7% for the quarter.

The Emerging Markets, which are measured by the MSCI Emerging Market Index, were down roughly 4.25%.

HISTORICAL SUMMARY: shows the cash flows of the entire Plan.

Ms. Fletcher said the contributions came in at $1,087,065; distributions are $507,634; other disbursements is $52,011; investment gain of $965,308; as of September 30, 2019, the market value is $78,073,471.

CASH MANAGEMENT ACCOUNT: shows the cash flows within the cash management portion of the Plan.

Ms. Fletcher pointed out that $300,000 was transferred out into the investment portfolio and was invested.

EXPENSE SUMMARY:

Ms. Fletcher said the average expense ratio for the quarter was 7 basis points; other expenses that have been paid is about 7 basis points as well; so overall, about 14 basis points in expenses.

Mr. Ryan pointed out that the portfolio, during the second fiscal quarter, had a positive October, up 1.34%; positive November, up .94%; that brings the FYTD return to 3.58%.

Mr. Ellis asked how First Horizon looks at the next 10 - 15 years, in terms of performance and whether it is possible to hit the actuarial assumption of 7.25.

Mr. Miller said that he does not have a crystal ball and he certainly does not make guarantees. He said he would want to have the actuarial number a little lower than 7.25.

Mr. Miller added that it might be possible to hit the 7.25 if the economy continues to chug along well and if unemployment is low, interest rates are kept in check and there is not some global blow up. He said a lot of things have to go right to hit 7.25 with a 60/40 portfolio.

Mr. Ellis said it is an important question for the Committee, because the Committee has to determine what they are comfortable with.

Review of Actuarial Report as of July 1, 2019 (Richard Ellis, Ellis & Ward Benefits Group, Inc.)

This report is prepared once a year to determine the contribution requirement for the current fiscal year and to provide disclosure information as of June 30, the past fiscal year.

There are 483 participants in this Plan, as of 07-01-19. The annual compensation for those 483 people is $23,874,855. The average age for active participants is 46.4. Currently, there are 86 people receiving benefits from the Plan.

The actuarially determined contribution for 07-01-19 is $2,401,808, which is 10.1% of pay. That compares to $2,452,625, which is 10.0% in 07-01-18.

Mr. Ellis said the 10.1% has been fairly consistent over the last few years. He said that what is nice about this Plan is that the Town has been putting in about 13.0% of pay. That is part of the reason the unfunded is down to zero.

The money-weighted rate of return (ending June 30, 2019) is 7.35%.

The market value of assets is $76,580,743; the actuarial value of assets is $77,582,392.

Mr. Ellis said the returns for the last six years have averaged 7.02%. He cautioned the Committee that it is something to keep an eye on. A lot is going to depend on what happens in the next fiscal year, in terms of gains and losses.

The balances (liabilities versus market valued assets), as of 06-30-2018, was $73,263,734 in liability; with $69,826,482 in the bank; for a net pension liability of $3,437,252.

The balances (liabilities versus market valued assets), as of 06-30-19 was $83,699,984 in liability; $76,580,743 in the bank; the net pension liability has increased to $7,119,241.

Mr. Ellis said two things happened that caused an increase in the net pension liability, changing the discount rate from 7.50 to 7.25 and changing to a new mortality table.

Mr. Ellis said the Plan looks good.

There were no questions.

Adjournment

There being no further business, the meeting was declared adjourned at 9:55 a.m.

Chairman

Town Clerk