A regular meeting of the Pension Committee was held February 11, 2016 at 9:00 a.m. in the Administration Conference Room at Town Hall, 500 Poplar View Parkway.

The following members were present: Dick Gardiner, Mark Krock, Jay Jeffries and Stan Joyner. Absent was Danny Barnwell.

Staff present was James Lewellen, Josh Suddath, Adam Hamric, Pension Attorney Frank Carney and Lynn Carmack. Also present was Susan Fletcher, Gerald Laurain, Ward McBee and Lisa Cook of First Tennessee Bank.

APPROVAL OF MINUTES

Motion by Mayor Joyner, seconded by Mr. Krock, to approve the minutes of the November 9, 2015 meeting.

ROLL CALL: Gardiner – yes, Krock – yes, Jeffries – yes, Joyner – yes.

REVIEW OF THE QUARTERLY INVESTMENT PERFORMANCE OF THE COLLIERVILLE DEFINED BENEFIT PENSION PLAN BY FINANCIAL ADVISORS – FIRST TENNESSEE BANK (Gerald Laurain, Ward McBee and Susan Fletcher)

Mr. Jeffries introduced Gerald Laurain and Ward McBee of First Tennessee who were first time attendees.

Mr. Laurain introduced Ward McBee as the new portfolio strategist, replacing Alan Ferguson. Mr. McBee has worked as a portfolio strategist for a number of years with First Tennessee, and is familiar with the bank's philosophy and process.

Mr. Laurain talked about the Capital Markets, and what to expect in the intermediate and longer term future, and foreign exchange and currency risks and how it relates to global trade.

Mr. Laurain started with the overall theme in Europe, which may be negative growth. There are three central banks in Europe that have gone to a negative interest rate policy. European banks are highly leveraged to global trade and there is serious concern that global trade will contract.

China is the second biggest trading power in the world. Instead of growing at ten or twelve percent as they have for a number of years, they are trying to get to seven percent. It is a growth recession in China currently and there are a number of people that have started to question the solvency of their banks.

Brazil is suffering from stagflation and Russia is in a depression. India is starting to experience difficulties too. Nowhere in the world can you look, whether it is Europe or Asia or South America and find anything other than gloom and doom and low interest rates going to negative interest rates.

Mr. Laurain said the good news is that it is not quite that bad in the United States. The US still has slow, steady growth and good increases in employment (the unemployment rate is below 5% again). From an economics perspective, there is a bit of concern about the fact that the growth and corporate profits have rolled over a bit. There seems to be a contraction in price earnings multiples, which is never a good combination for investors. The Fed discontinued quantitative easing in October 2014 and moved off of the zero interest policy in December 2015.

Mr. Laurain said this leads to how people are processing all of this (Five Factor Framework). The first factor is published by an operation called the Economic Cycle Research Institute, that believes in the business cycle and if the economy is expanding. Their weekly leading index growth rate turned negative in July 2015, so that is a warning sign that things could get a little volatile.

The second thing is the market trend, which had been in an uptrend until December 2015, until outside forces started to take over and it is now in a down trend.

The first two factors in the Five Factor Framework are red which gives cause for concern and caution.

The other factors in the framework are credit conditions and monetary conditions. Central banks around the world are providing plenty of credit with low interest rates. Monetary conditions are still relatively favorable.

Investor psychology is an important factor. People are fearful right now, which is a relatively good thing. Given the low level of interest rates, valuations (the last factor) is still reasonably good looking.

Mr. Laurain concluded by stating that the moral of the story is there are two red lights and three green lights. Until people get all of the interest rate policies squared away and the foreign exchange rate settles down and European banks firm up a bit, it could be a rocky ride.

At this time Mr. Laurain turned it over to Mr. McBee to talk about his background and about the portfolio performance.

Mr. McBee advised that he has been in Memphis for about 16 years and has been with the bank since 2003. He started out in the discount brokerage area and then transitioned into his current role in wealth management. Mr. McBee was a portfolio manager for a Knoxville Trust Division from 2008 to 2011 and has been on the investment committee since the beginning of what is now FTB Advisors.

Upon a question from Mr. Krock, Mr. McBee defined the roles of FTB Advisors, how the investments change in the portfolio, and how the investment committee works. The investment committee meets monthly to talk about the Five Factor Framework, their approved funds list, and how that stacks up in a large value category versus the market. The committee uses a couple of proprietary score cards to monitor and screen for funds.

Mr. McBee said that when they talk about the five factor framework, it is just in the colors. The macroeconomic background is red, the trend in the market has rolled over in December of last year, so that is red, liquidity is green, market psychology is green and fundamental valuation is green.

Mr. McBee skipped to the Capital Markets Assumptions, stating the portfolio is 40% fixed income and 60% stocks. The expected returns 2015 for bonds is 1.32, stocks and real estate is 4.52, with the total fund at 5.83. The actuarial assumption is 7.50, so there is some work to be done there.

Moving on to the performance at the end of 2015, the account had $53 million. The second quarter performance, the portfolio returned 2.60 versus a blended benchmark of 2.92. The fiscal year to date is -1.97 versus -1.80. At 1year it is 0.01 versus -0.27. The blended benchmark at 3 years is 7.46 versus 7.07. The 5 year is 6.98 versus 6.34 and inception is 5.38 versus 3.95.

Mr. McBee pointed out that the asset allocation shows the target is 40% fixed income and it is at 40.30. The total equity target is 60% and it is down to 59.70, which is within the range. There are no comments or concerns here.

Mr. McBee referred to the portfolio holdings and performance on page 5, stating that a couple of things have happened since January 1. The first bond under the US Treasuries & Agencies, paying 3.705% matured on 1/29/16 (it was 300,000.000 par values, which they will redeploy as they find opportunities to do so).

Under Domestic Equity Funds, the Highland Dividend Equity fund was liquidated on 1/14/16 and it was replaced with a T. Rowe Price Dividend and Growth Fund on 1/21/16.

Mr. McBee concluded his remarks by stating that under the International Equity Funds, the Vanguard Emerging Markets Stock Fund was liquidated. An allocation to Emerging Markets was also taken off of the table and most of that money was redeployed back into MFS International Value and the Oppenheimer International Growth.

There were no questions or comments from the Committee.

ADJOURNMENT

There being no further business, the meeting was declared adjourned at 9:30 a.m.

Chairman

Lynn Carmack
Town Clerk