A regular meeting of the Pension Committee was held on Thursday, February 21, 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

Motion by Mayor Joyner, seconded by Mr. Krock, to approve the minutes of the November 14, 2018 meeting.

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 is based on the growth rate of weekly indicators. That has been negative for the past 4 months as a result of slowing economic growth. It is marked red.

Market Trend is based on the S&P 500's market position at the end of any month relative to the previous 12 month moving average. The S&P has closed below the 12 month moving average in December. January is denoting a negative market trend. It is marked red.

Monetary Conditions is mainly based upon the shape of the yield curve. The difference between the two year and the ten year treasury, and the concern about those overlapping and being an indicator that we are close to a recession. Mr. Miller said that as of this morning, the spread between the two is 0.15 basis points. If they see that inversion, this indicator will switch from yellow to red. But for now it is yellow.

Investor Sentiment is based on the Hays Advisory Measurement of Investor Sentiment. Investor Sentiment has been pretty strong over the past year, barring the past quarter. This has been red for a long time. It started yellow in November and December and it is now green (a meaningful change).

Valuations is based upon price/earnings ratios and embedded sales expectations. PE ratios have been high for quite some time. When PE ratios are high, that means there is not nearly as much room to grow. That has been red for some time. Because of the pull back in the markets from the end of October, November and December, that switched to yellow.

ECONOMIC FORECAST:

Chris Low sees GDP growth decreasing throughout 2019. The unemployment rate is expected to continue to decrease further through 2019.

Core PCE (Personal Consumption Expenditures) takes out food and energy to give a clearer picture without as much volatility. Mr. Low sees Core PCE decreasing throughout 2019 as well. That is pertinent as far as interest rate hikes going forward.

Federal fund rates have been bumped up from 2.25% to 2.50% in the December meeting. That was one of the large reasons for seeing such a considerable pull back in the fourth quarter. The expectation, according to Chris Low, is to not see any more rate hikes this year.

Mr. Low predicts a 30% chance of recession in 2019 and a 40% chance in 2020.

Mr. Reichert pointed out that GDP numbers are showing a very strong growth in 2020, yet Mr. Low is talking about a 40% ~~change~~ Chance of recession in 2020.

Mr. Miller explained that there is no hard and fast rule behind GDP growth and nobody has the crystal ball. He said that Chris is a pretty conservative viewed individual and to see him seeing GDP growth pick back up in 2020, he must be seeing something that warrants it.

Ms. Fletcher added that it is an interesting contradiction, where there is growth but the potential for a recession goes up.

IPS GUIDELINES & CAPITAL MARKET ASSUMPTIONS:

The DB portfolio targets a 40% allocation to fixed income and a 60% allocation to equities. The capital market assumptions have not changed and the expected returns have not changed (1.19 expectation for fixed income and 3.87 expected return for equities with a 5.06 overall expected annualized return). That is long term, which is 10+ years.

MARKET VALUE AND PERFORMANCE:

The portfolio is down -4.61 in October; up 1.15 in November; down -4.45 in December; 2Q is down -7.81; FYTD is down -5.42; 1 Yr. is down -5.32;

Mr. Miller said the shorter term numbers were meaningfully skewed by the worst year seen in 10 years and the worst December since 1931. It was the worst Christmas Eve on record. Things look better on the 3 year, 5 year and inception numbers.

On a 3 Year basis, the portfolio has returned 4.52 versus 4.41 for a blended benchmark; the 5 Year basis has returned 4.21versus 3.94 for the blended benchmark; and, since Inception 11 Years and 6 Months, the annualized return has been 5.15.

Overall, long-term, annualized returns have been good.

Mr. Miller gave an update on where the numbers stand right now. The total fund in January was up 5.88, February was up 2.2 and FYTD (over 8 months) was up 2.34.

ASSET ALLOCATION:

This details the dollar amount and percentage of each sub asset class as of December 31, 2018.

The total cash and fixed income was $29,464,833. That represented a 44.26% share of the portfolio with a target variance of 4.26.

The equities portion had a value of $37,103,513, which represented a 55.74% share of the portfolio with a target variance of -4.26.

A couple of reasons that represented the variance of 4.26 is that there was a $250,000 deposit that was made into the portfolio at the end of December, which bucked the cash value up a bit and there were meaningful cash dividends and capital gains distributions of about $1.4 million dollars that came from dividends and capital gains distributions in December as well. Lastly, the under-performance of the equities portion of the portfolio made it have a smaller percentage representation.

The total portfolio balance at the end of December was $66,568,346. Despite the variances of the allocation percentages, values were still within acceptable ranges.

Mr. Miller pointed out that the portfolio was rebalanced back to target weightings at the beginning of January, 2019.

HOLDINGS AND PERFORMANCE:

These will help illustrate the performance of the individual underlying holdings in the portfolio for the past three months and FYTD.

The fixed income funds, for the most part, enjoyed positive returns for the quarter. There was only one that was slightly down and that was the Vanguard Inflation Protection Fund. Inflation protection securities overall have not performed well for the quarter. The only other sub set of fixed income that had negative performance for the quarter was High Yield U.S. Corporate Bonds.

A tax free Texas Muni Bond was purchased in error, in November, after a taxable muni bond matured. The error was identified in early January and was corrected. The bond was sold at a profit.

Corporate Bonds experienced some mixed returns, with a few being slightly down. Overall, the majority enjoyed positive returns.

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

The Common Stocks in the portfolio did not fare nearly as well as the fixed income positions for the quarter. Nearly every single stock in the portfolio was impacted with only one company, First Energy Corp, experiencing positive results.

A few changes to the lineup have occurred. The acquisition of CA Inc., by Broadcom, the sale of Spectrum (to curtail under-performance and reduce exposure to consumer staples), and the purchase of Cognizant Technology Solutions Corp and NXP Semiconductors (which have been on the wish list for a while).

The top three leading detractors for the common stocks were healthcare, financials and consumer staples. Overall, they all were negative for the quarter.

The Domestic Equity Funds suffered for the quarter as well, similar to the common stocks, with Large Cap Investments out performing Small Cap and Mid Cap. But, all were meaningfully down for the quarter.

International and Emerging Market equities funds had a rough quarter too. Oppenheimer International Growth continued to underperform and it is currently on watch. It has popped up a little bit so far this year. The Investment Committee is going to give them a little more time. Oppenheimer tends to be a lot more long term oriented.

Lastly, the real estate funds got hit also as a result of rising interest rates and higher market volatility. The Investment Team has decided to eliminate the direct real estate allocations in their client portfolios. They determined that on a look through basis, the other portfolio holdings already had a sufficient exposure to real estate. As a result, they plan to be selling out of the two real estate funds in the portfolio, T Rowe Price Real Estate and Vanguard REIT Index.

The proceeds from the real estate funds will be reinvested in portfolio equities. In the event that equities are a bit high already, they would be rebalanced into the fixed income portion.

HISTORICAL SUMMARY:

This illustrates the historical market values of the portfolio going back to 2008. Value has risen considerably since inception.

Ms. Fletcher said the portfolio is well above $72,000,000 at this point, with the gain through last night.

CASH MANAGEMENT ACCOUNT:

Ms. Fletcher pointed out that the market value of the actual investment account, as of last night, is $72,032,000. That is a big gain of over $5,000,000 just since the end of the year. She said it is good to see those numbers going back up.

EXPENSE SUMMARY:

Ms. Fletcher said the expense ratios continue to be very low. Through half the year, mutual fund weighted expense is 0.17 basis points. FYTD, trustee and trading fees are coming in at 0.14 basis points and other expenses is 0.04, for a total of 0.18.

Mr. Jeffries asked for questions or comments.

Mr. Reichert asked Mr. Miller to summarize their overall strategy as far as mix between stocks and fixed income.

Mr. Miller stated that this is 40% fixed income and 60% equities, which is a conservative way to mix them together. He said he does not think that it is too conservative or too outrageous. It is a comfortable mix.

Mr. Miller said they are long term investors and they are not looking to get in and get out or move the allocation around on a quarterly basis (although they will always welcome that discussion if the Board would like to). He said that as far as going forward, he thinks that this was a market pull back that you typically see in bull markets and it is normal.

Mr. Miller stated that personally he feels comfortable with the situation currently. It is just part of the market being a little irrational sometimes.

Ms. Fletcher added that the change to get out of real estate right now is because of the current conditions and it may be added back in when it is looking to be more favorable.

Mr. Miller said that in the Committee's mind, this was just a prudent measure, to take a little exposure off the table, and to put back in the equities portion.

There were no other questions or comments.

Adjournment

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

Chairman

Town Clerk