

KNOX COUNTY RETIREMENT AND PENSION BOARD

March 26, 2018

The Knox County Retirement and Pension Board met in regular session on Monday, March 26, 2018, at 1:30 P.M. in the Large Assembly Room, City-County Building, Knoxville, Tennessee.

The following members were present: Chairman Chris Caldwell, Proxy for Mayor Burchett, Commissioner Hugh Nystrom, Vice Chairman, Ms. Tracy Foster, Secretary, Commissioner Ed Brantley, Commissioner John Schoonmaker, Commissioner Bob Thomas, Mr. Garrett Raiden and Mr. Zack Webb. Ms. Jennifer Hemmelgarn was absent.

Also present at the meeting were:

USI Consulting Group: Mr. Bob Cross, Mr. Adam Davies, Mr. Edward Bronkhorst

Legal Counsel: Mr. Bill Mason, Ms. Ashley Trotto, Mr. John Owings, Mr. Charles Burks

Attorney: Mr. Keith Burroughs

Media: Mr. Mike Steely, Knoxville Focus, and Mr. Tyler Whetstone, Knoxville News Sentinel

Retirement Staff: Ms. Kim Bennett, Ms. Jennifer Schroeder, Ms. Terri Chase, Mr. Zack Cole, Ms. Savannah Russell and Ms. Mitzi Stooksbury

Others in attendance: Mr. Wayne Sellers, Nationwide, Mr. Richard Trott, Retiree, and members of the general public.

IN RE: CALL TO ORDER

Chairman Caldwell presided and called the meeting to order.

IN RE: AMENDMENTS TO AGENDA

Ms. Bennett stated that there were no amendments to the agenda.

IN RE: APPROVAL OF MINUTES OF FEBRUARY 26, 2018

Chairman Caldwell presented the minutes for February 26, 2018. Ms. Foster made a motion to approve the minutes for February 26, 2018. The motion was seconded by Commissioner Brantley and unanimously approved.

IN RE: APPLICATIONS FOR RETIREMENT – DEFINED BENEFIT PLAN, LUMP SUM DISTRIBUTION AND AUTHORIZATION OF CREDITED SERVICE BENEFIT BASED ON COMPLETED YEARS OF SERVICE

The following applications for retirement and the credited service benefit based upon completed years of credited service at the date of retirement, as provided in the Asset Accumulation Plan, were presented for consideration:

<u>NAME</u>	<u>DEPARTMENT</u>	<u>CREDITED SERVICE</u>	<u>EFFECTIVE DATE</u>
Johnnie W. Whitaker, III	EPW	31 years 0 months	April 1, 2018

A motion was made by Commissioner Brantley to approve the application for retirement under the Closed Defined Benefit Plan as presented and to authorize the Trustee, State Street Bank, to make payment of the monthly benefits and credited service benefit. The motion was seconded by Commissioner Schoonmaker and unanimously approved.

**IN RE: APPLICATIONS FOR RETIREMENT – DEFINED CONTRIBUTION PLAN AND
AUTHORIZATION OF CREDITED SERVICE BENEFIT BASED ON COMPLETED YEARS OF
SERVICE**

The following applications for retirement and the credited service benefit based upon completed years of credited service at the date of retirement, as provided in the Defined Contribution Plan, were presented for consideration:

<u>NAME</u>	<u>DEPARTMENT</u>	<u>CREDITED SERVICE</u>	<u>EFFECTIVE DATE</u>
Lynn D. Anderson	Schools	5 years 5 months	April 1, 2018
Steven Hall	Schools	7 years 6 months	April 1, 2018
David Hughes	EPW	6 years 6 months	April 1, 2018
Paul Robinson	Schools	28 years 3 months	April 1, 2018

A motion was made by Commissioner Brantley to approve the application for retirement under the Asset Accumulation Plan as presented and to authorize the Directed Custodian, Wells Fargo Bank, to make disposition of the benefits upon certification from USI and to authorize Trustee, State Street Bank, to make payment of the credited service benefit. The motion was seconded by Mr. Raiden and unanimously approved.

IN RE: REPORT OF EXECUTIVE DIRECTOR

Ms. Bennett reported on the following items:

- **Status of Reed Group Transition** – Ms. Bennett reported Reed Group has taken the test file and have signed off on the first few phases.
- **Plan Amendments** – Ms. Bennett stated that there will be plan amendments to the loan program and there will be a resolution presented in April. Ms. Bennett also addressed classified School's employees credited service for vesting purposes. The consistent practice has been that one full school year is equivalent to one year of credited service. Commissioner Nystrom questioned if that was a change in policy. Ms. Bennett responded that it has always been in practice and also followed by the State retirement plan. Commissioner Brantley motioned that this policy be incorporated in the resolution presented in April. The motion was seconded by Mr. Raiden and was unanimously approved.
- **Audit "Internal Process" with an end date of August 31, 2018** – The retirement office has put the internal process in place to provide appropriate checks and balances. Pugh & Co. have requested the staff do a sample audit of both the disability plans and UOPP for pre-December 1, 2016 retirees which is planned to be completed before August 31, 2018.
- **Retiree Luncheon** – The retiree luncheon will be held on April 10th at Rothchild's.

IN RE: REPORT OF INVESTMENT COMMITTEE

- **Monthly Rates of Return** – Commissioner Brantley presented the rates of return for the Defined Contribution Plans as of February 28, 2018.
- **Report of the Special Called Investment Committee Meeting of March 21, 2018** – Commissioner Brantley gave a recap of the special investment meeting from March 21, 2018, and encouraged committee members to speak as well.
- **Discussion of Assumed Rate of Return on UOPP** – Commissioner Brantley stated that USI Consulting will be presenting the assumed rate of return for UOPP. Mr. Cross presented a report (attachment) to show the current investment policy allocation of UOPP. Commissioner Schoonmaker made a motion to increase the valuation assumed rate of return for UOPP from 7% to 7.25%. The motion was seconded by Mr. Webb and approved unanimously. Commissioner Thomas asked about the potential investment loss the portfolio may experience if equity markets were to decline. Mr. Davies discussed potential projections (attachment), and stated that this estimate was for any given year based on a 95% confidence interval. Mr. Cross stated this adjusted rate of return was recommended due to the longer life span of the UOPP plan.

IN RE: REPORT OF LEGAL COUNSEL

Mr. Owings had no report.

Mr. Burks reported that a responsive pleading had been filed in the Chancery Court and also said that we were entering into a stay in the Gass matter in Chancery Court.

Mr. Mason stated for the record that the Law Director filed a voluntary nonsuit, dismissing the lawsuit filed against him and his firm, Kennerly Montgomery.

IN RE: REPORT OF ACTUARY

Mr. Cross presented the mutual funds letter from State Street (attachment). Ms. Bennett addressed the transfer of money managers to the new investment mix USI recommended. Two of the funds, Allianz Structured Return and Transamerica Short Term Bond were reported to not be setup on State Street's investment platform at this time and are still held in cash. One investment fund is now approved by State Street and the other does not yet have a date in which it will be ready to be invested. Ms. Bennett will update the Board as she receives any information on the matter. Mr. Davies stated that the paperwork for the funds was sent to State Street on February 27th and on March 16th, USI was informed that two of the funds were not set up by State Street. Mr. Cross stated that it would be reasonable that the fund be reimbursed for any loss by State Street. Mr. Webb asked if there was a possibility of picking another fund. Mr. Cross responded that the Board could, but these funds are well recognized mutual funds and it is unusual that these funds are not on State Street's platform. Mr. Davies stated that State Street gave USI an initial timeline of correction of two weeks and the deadline will be the end of the week. Commissioner Thomas asked for exact numbers for the amount not in investments. Mr. Bronkhorst stated that the total was \$30 million; \$16 million in UOPP and \$14 million in Closed DB/Teachers.

IN RE: APPROVAL OF PAYMENT – STATEMENT OF ACCOUNT

The following statement of accounts for professional services was presented for consideration and approval of payment, in accordance with agreements and audited and recommended for payment by Ms. Bennett:

FEE SCHEDULE

Invoices for March 2018	Fiscal YTD Approved Invoices 02/28/2018	MAR Invoice For Approval	Fiscal YTD Approved Invoices 03/31/2018
BENXL Invoice # 102927		\$9,600.00	
TOTAL BENXL	\$25,800.00	\$9,600.00	\$35,400.00
KENNERLY, MONTGOMERY & FINLEY, P.C. Invoice #204654 - QDRO*		\$0.00	
KENNERLY, MONTGOMERY & FINLEY, P.C. Invoice #		\$0.00	
KENNERLY, MONTGOMERY & FINLEY, P.C. Invoice #		\$0.00	
***TOTAL KENNERLY, MONTGOMERY & FINLEY, P.C.	\$1,000.00	\$0.00	\$1,000.00
Owings, Wilson & Coleman Invoice # 9912M - 02/28/2018 Invoice # 9909M -		\$26,445.55 \$0.00	
*** TOTAL OWINGS, WILSON & COLEMAN	\$33,360.60	\$26,445.55	\$59,806.05
JUSTICE, NOEL & BURKS Invoice #		\$0.00	
TOTAL JUSTICE, NOEL & BURKS	\$17,310.00	\$0.00	\$17,310.00
USI CONSULTING GROUP Invoice # 90020380 Invoice # 90018858		\$38,787.60	
TOTAL USI CONSULTING GROUP	\$374,814.80	\$38,787.60	\$411,602.40
Invoices for March 2018	\$462,285.40	\$72,813.05	\$525,098.45

		<u>Fiscal YTD</u>
*** Retainer not included in approved billings for the Board		
Owings, Wilson & Coleman Retainer	\$4,000 per month	\$38,000
Kennerly Montgomery Retainer	\$12,000 per month	\$108,000
Court Reporter		\$3,877.35
Fees Received from QDRO Participants	\$500 (DC Fee) \$2,000 (DB Fee)	\$1,000 \$2,000

*QDRO fee is Paid to Retirement Office which off sets the legal fee

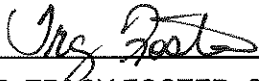
After review of the statement of accounts and invoices and discussion on the court reporter fee, a motion was made by Commissioner Thomas that the Board authorize the payment indicated above to be paid from the designated Retirement Plans. The motion was seconded by Commissioner Nystrom and unanimously approved.

ADJOURNMENT

As there was no further business to come before the Board, the meeting was adjourned in order.



MAYOR TIM BURCHETT, CHAIRMAN
BY PROXY, CHRIS CALDWELL



MS. TRACY FOSTER, SECRETARY

Attachments:

- 1.) Allocation
- 2.) Mutual Funds Letter



March 23 2018

Kim Bennett
Executive Director
Knox County Retirement and Pension Board
City-County Bldg., Room 371
400 Main Street
Knoxville TN 37902

Re: Knox County Retirement Mutual Fund Trades

Dear Ms. Bennett,

Thank you for reaching out to me to discuss the mutual fund investments that we are pending for your funds RBUF, RBUG and RBUH. Despite communication to the contrary prior to the trade date, tickers AZIRX and TASTX were unavailable to trade on our platform when the trade tickets were received. We are urgently and diligently working with senior levels of management in the trading area to have these tickers added so that we can place the trades as requested.

When we received the list of 20 tickers requested, we reached out to our trading area to confirm that we were able to trade them. Six were unavailable at that time. I have identified that in the internal email communication this list of unavailable tickers was split into a group of two and a group of four. The group of four was sent to our compliance group and then added to the platform. The other two were not sent to compliance and subsequently not added to the trading platform.

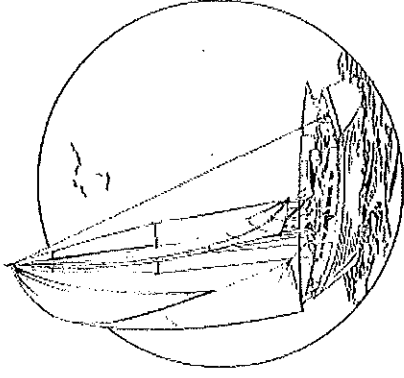
I am researching this with a peer in the trading area to better understand how this occurred. As per our standard protocol, there was communication via email and phone between the client service team and the trading area while this was being set up. We are also reviewing the current process and identifying mechanisms to put in place to prevent recurrence of this situation.

On behalf of State Street I sincerely apologize for the frustration and loss of time that this situation has caused for you, your consultant and your board. If I can be of further assistance please feel free to reach out at 816-871-3596 or by e-mail at LJAtkins@statestreet.com.

Sincerely,

Lauren Atkins
Vice President
State Street Bank and Trust Company

Knox County Retirement & Pension Board



Knox County Retirement System Defined Benefit Plans

3/26/2018

Presented By:

Bob Cross, MAAA, ASA, FCA – *President, Southeast and Midwest Regions*

Adam Davies, CFA – *Assistant Vice President, Investment Consultant*

Edward Bronkhorst – *Investment & Data Specialist*

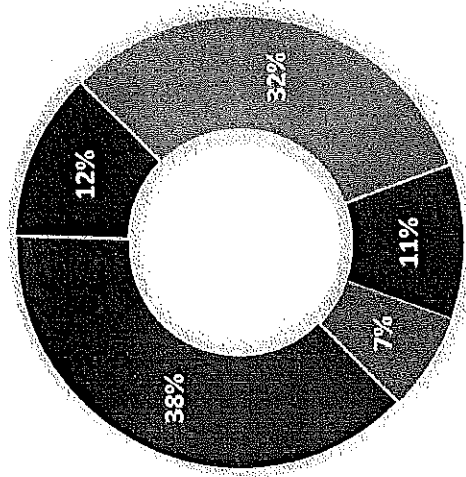


CONSULTING GROUP

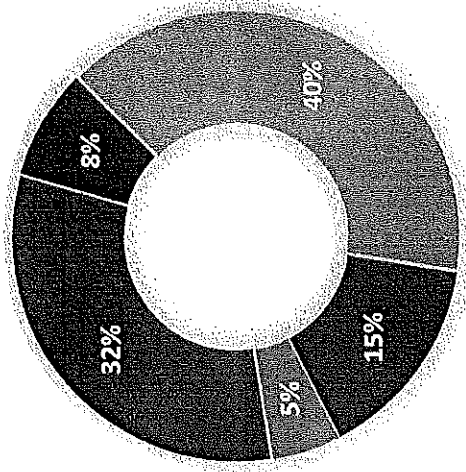
Asset Allocation

Asset Allocation

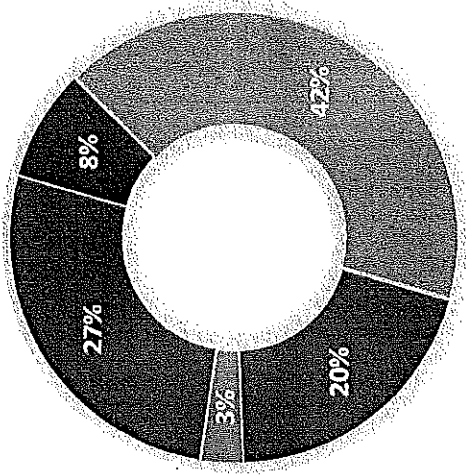
Defined Benefit



Teachers

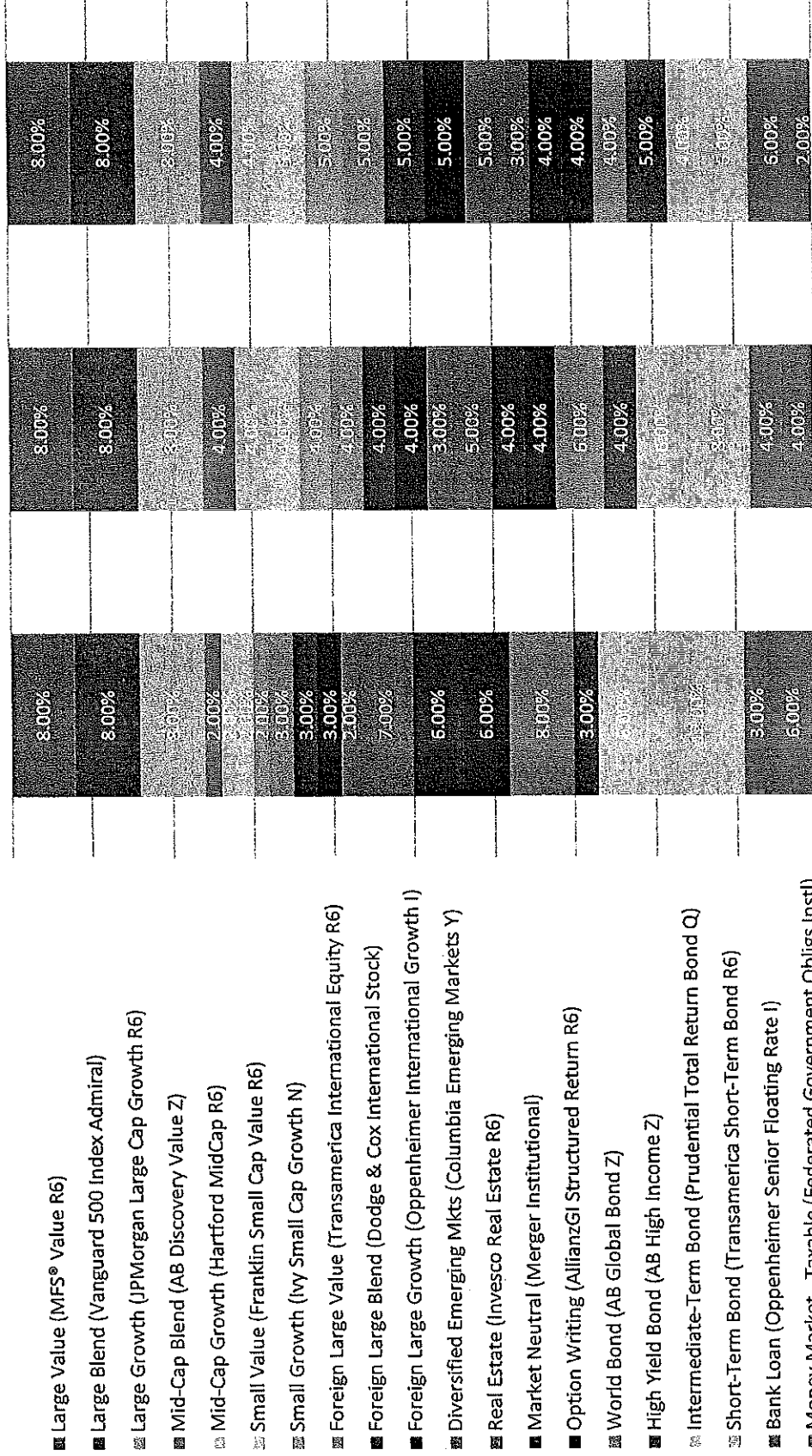


UOPP



Domestic Equity
 International Equity
 Real Estate
 Fixed Income
 Alternatives

Asset Allocation



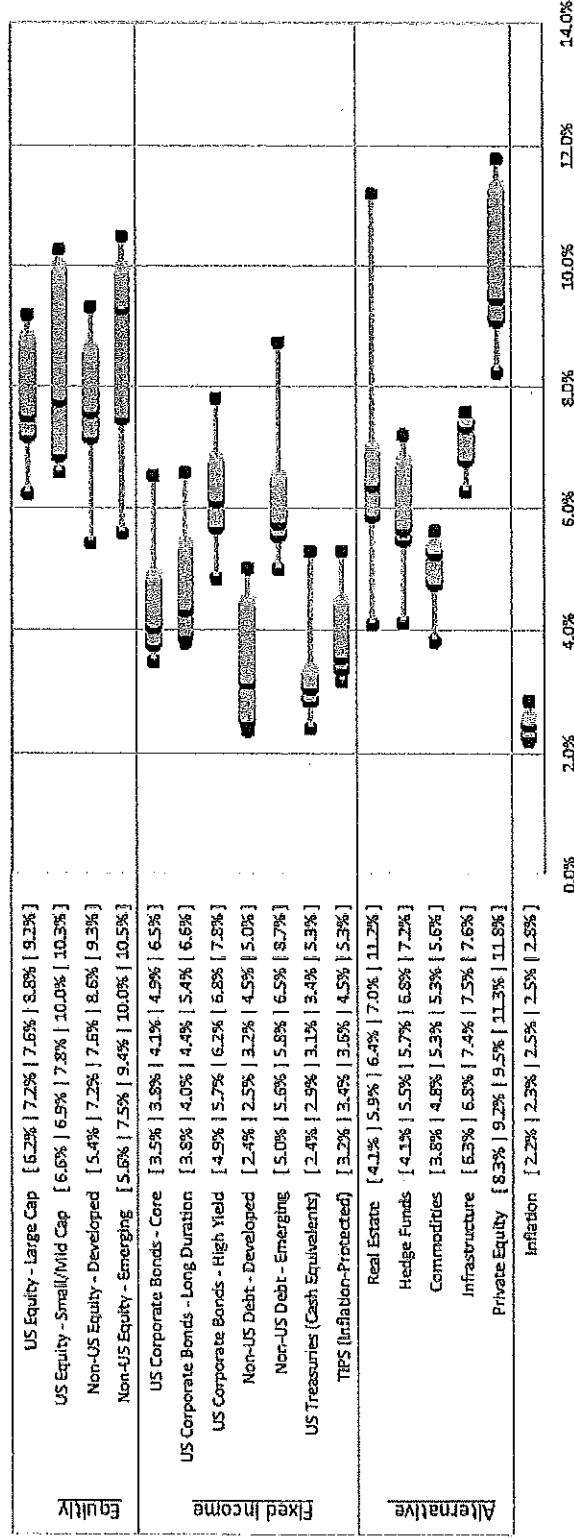
Defined Benefit Teachers UOPP



Return Projections

20-Year Capital Market Assumptions

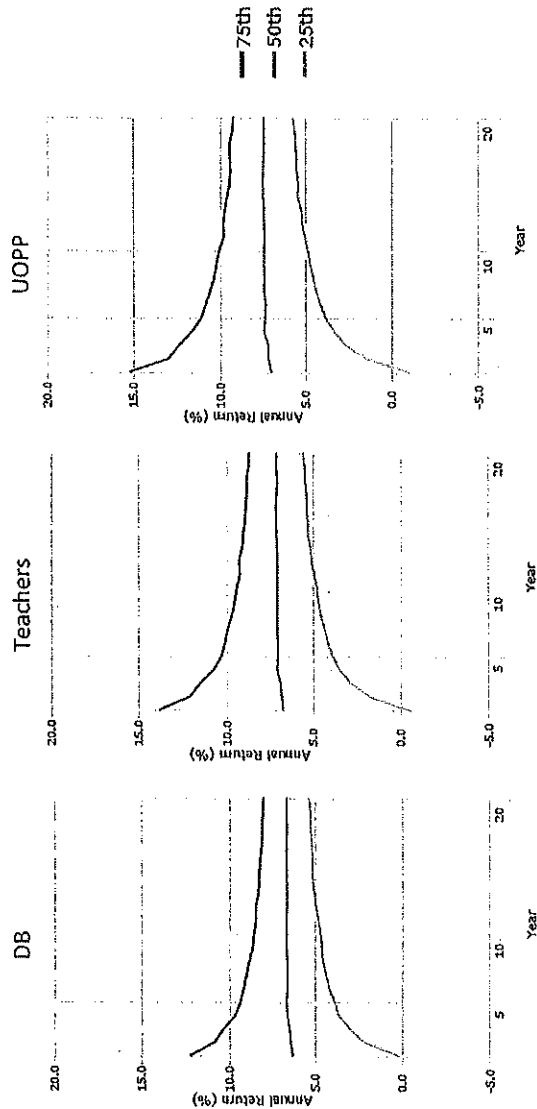
Asset Class [Min | 25th | 50th | 75th | Max]



SOURCE: Horizon Actuarial 2017 Survey of Capital Market Assumptions
 Expected returns are annualized over 20 years (geometric), based on a subset of 12 advisors who provided longer term assumptions.



20-Year Return Projections



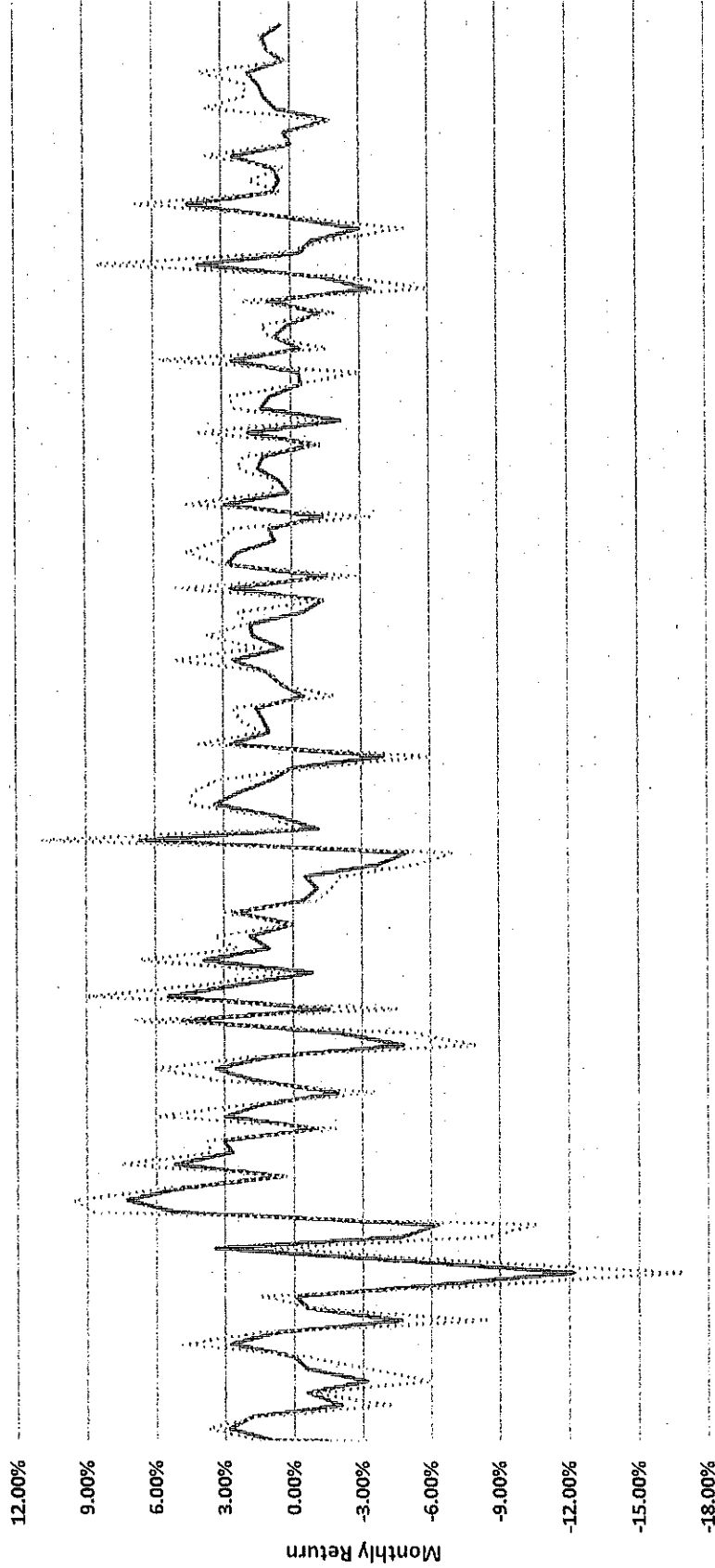
Return Forecast	25th Percentile	50th Percentile	75th Percentile	Historical Alpha
5-Year				
Defined Benefit	3.95%	6.74%	9.40%	0.86%
Teachers	3.95%	7.12%	10.35%	0.84%
UOPP	3.89%	7.44%	11.14%	0.84%
10-Year				
Defined Benefit	4.73%	6.73%	8.62%	0.86%
Teachers	4.86%	7.16%	9.48%	0.84%
UOPP	4.93%	7.51%	10.11%	0.84%
20-Year				
Defined Benefit	5.45%	6.72%	8.06%	0.86%
Teachers	5.65%	7.19%	8.76%	0.84%
UOPP	5.81%	7.51%	9.28%	0.84%



Risk Projections

Risk Projections

— Knox County Portfolios S&P 500



Risk Forecast	Standard Deviation	Max Drawdown (95%)	Max Drawdown (100%)	Up/Down Capture
Defined Benefit	9.10%	8.69%	12.08%	102.44 / 91.83
Teachers	10.89%	10.87%	14.87%	102.92 / 94.38
UOPP	12.24%	12.52%	16.95%	104.05 / 97.95

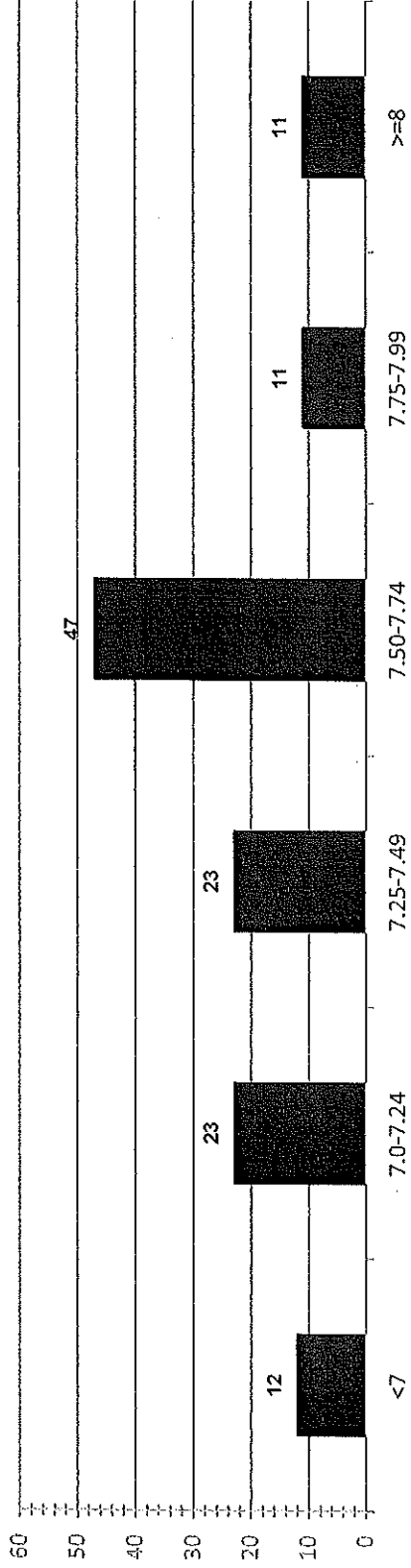


CONSULTING GROUP

Source: Morningstar & Horizon – Survey of Capital Market Expectations (2017)

Return Assumptions

Public Pension Plan Return Assumptions



- The average return assumption is 7.375%.
- The most commonly utilized assumption remains at 7.50%.
- Tennessee Political Subdivisions: 7.25%
- Tennessee State and Teachers: 7.25%

Amortization Policy

Amortization Policy

1. Variations in contribution requirements from funding the normal cost will generally arise from gains or losses, method or assumptions changes, or benefit changes and will emerge as a UAAL.
2. The amortization policy should reflect explicit consideration of these different sources of change in the UAAL:
 - a. Experience gains and losses
 - b. Changes in assumptions and methods
 - c. Benefit or plan changes
3. The amortization policy should support the general policy of objectives of accountability and transparency. This leads to a preference for:
 - a. Amortization policies that reflect a history of the sources and treatment of UAAL
 - b. Amortization policies that provide for a full amortization date for UAAL

The amortization policy for the UOPP shall be that the UAAL, as of January 1, 2014 and any changes thereafter under 2 (b) and 2 (c) above, shall be amortized over a fixed period of 29 years beginning January 1, 2014. The amortization period for experience gains and losses under 2(a) above shall be 10 years from the date of the actuarial valuation.

Recommendation

Recommendation

- Change Actuarial Investment Gain Assumption for UOPP to 7.25%
- Retain Current Actuarial Investment Gain Assumption on County Defined , BOE & Disability Plans at 7.00%