

KNOX COUNTY RETIREMENT AND PENSION BOARD

INVESTMENT COMMITTEE MEETING

February 13, 2018

A meeting of the Knox County Retirement and Pension Board Investment Committee was conducted on Tuesday, February 13, 2018, at 1:30 p.m. in Room 640 of the City-County Building. The following were in attendance:

Knox County Investment Committee members:

Commissioner Ed Brantley, Chairman, Commissioner Hugh Nystrom, Commissioner John Schoonmaker, Mr. Chris Caldwell, Mr. Zack Webb, Ms. Tracy Foster

Legal Counsel: Mr. Bill Mason, Ms. Stephanie Coleman, Ms. Ashley Trotto

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

Nationwide: Mr. Wayne Sellers, Mr. Roland Wilson, Mr. Jeff Francis

Retirement Staff: Ms. Kim Bennett, Ms. Jennifer Schroeder, Mr. Zack Cole

Others in attendance: Mr. Nick McBride, Mr. Ed Shouse, Mr. David Wigler

Commissioner Brantley called the meeting to order and the following proceedings were held:

IN RE: CONSIDERATION OF APPROVAL OF MINUTES OF PREVIOUS MEETINGS

Commissioner Brantley said the members had received copies of the minutes of November 14, 2017, January 11, 2018, and January 22, 2018. After review, a motion was made by Commissioner Schoonmaker to approve the minutes for November 14, 2017. The motion was seconded by Mr. Chris Caldwell and approved. After review, a motion was made by Commissioner Nystrom to approve the minutes for January 11, 2018. The motion was seconded by Mr. Zack Webb and approved. After review, a motion was made by Commissioner Schoonmaker to approve the minutes for January 22, 2018. The motion was seconded by Mr. Zack Webb and approved.

IN RE: DEFINED BENEFIT PLAN PERFORMANCE REVIEW

Commissioner Brantley gave an overview of the Wilshire fund performance for the Defined Benefit plans. Ms. Bennett updated the rates of return on the investments and the performance of the investments for the Closed Defined Benefit Plan, Teachers Plan and Uniformed Officers Pension Plan (UOPP). Total market value of the DB/Teacher's Plans as of December 31, 2017 was \$104,849,015 and the Uniformed Officers Pension Plan total market value as of December 31, 2017 was \$179,371,287.

IN RE: DEFINED CONTRIBUTION PERFORMANCE REVIEW

Commissioner Brantley recognized Mr. Bob Cross and his team to present the investment report on the funds in the Defined Contribution Plans. Mr. Michael Welz proceeded with the Financial Market and Economic review. Mr. Welz discussed the recent market corrections and how this past year's market conditions were atypical. Mr. Welz discussed market indicators that would indicate a recession and how the most current volatility should not be considered as an indicator. He reported that at this time the probability of a recession in the next six months is very low based on market indicators. If anything, he stated, indicators are pointing toward overheating which may come with a 10-18% market downturn. Commissioner Nystrom inquired about the effects of the recent tax changes on the investment market. Mr. Welz informed him and the Committee that these changes could impact the market due to the inflow of cash that is currently held on hand at corporations. Mr. Davies followed up by stating that there is a historical trend with major tax law changes and market moves, and that USI will be monitoring any market moves and/or changes in the coming months. Mr. Cross included that this is the precise reasoning behind the diversification of the Defined Contribution plans and the goal for lessening the impact of volatility within the portfolios.

Mr. Davies reported the following account balances of the Defined Contribution plans as of December 31, 2017 as:

Asset Accumulation Plan:	\$ 320,459,547
457 Plan:	\$ 21,436,692
Medical Expense Retirement Plan:	\$ 7,289,875
Employee Disability Benefit Plan:	\$ 1,613,772.48
Sheriff Total Accumulation Retirement:	\$ 2,844,554
Sheriff 2% Employer Supplement:	\$ 358,132

Mr. Davies reviewed the performance of the stand-alone funds as well as the funds in the blended options. Mr. Davies gave an update on the Vanguard funds within the investment options, Vanguard has appointed their investment professionals to portfolio managers. Mr. Davies reported on each of the funds on the "Watch List": Mr. Davies indicated that USI is still monitoring Touchstone Large Cap (formerly Sentinel Common Stock). Their concern is with the wholesale firm, and they will continue to monitor this closely. Mr. Davies discussed Franklin Adjustable U.S. Govt Securities and its continued listing on the watch list. Mr. Davies indicated that there are organizational changes within this fund and that they are being monitored closely. Commissioner Schoonmaker asked if the Committee should consider alternative options to the Franklin Adjustable U.S. Govt Securities due to its continued placement on the watch list. Mr. Davies informed the Committee that this particular fund's diversification and performance make it a good investment option and that pursuing an alternative at this time may be ill advised. Mr. Davies updated the Committee on Columbia Acorn International and its placement on the watch list. Mr. Davies explained that this type of fund invests in growth stocks but has struggled to gain momentum in a very momentous market. It will, therefore, be monitored closely, and if a change is warranted, USI will notify the Committee. Mr. Davies stated that USI has been monitoring the funds on the "Watch List" and recommended no action at this time.

Mr. Davies provided an update on each of the investment options available for the Defined Contribution Plans and their performance over the past year.

Mr. Davies also provided an update on the target date funds and the various characteristics of each. Mr. Davies indicated that these funds need to be reviewed annually due to their internal tendencies to change investments. Commissioner Nystrom asked what causes the variation in T. Rowe Price Target Date Funds. Mr. Davies explained that the expenses of each particular Target Date Fund depend on that fund's investments. A fund with more international weighting is more expensive due to international investments being more expensive.

IN RE: UPDATE ON TRANSITION FROM WILSHIRE TO USI CONSULTING AND REVIEW OF EXPENSE ALLOCATIONS

Mr. Davies provided an update on the recent transition from Wilshire to USI Consulting. Mr. Davies explained that the transition could be completed by March 31, 2018. Mr. Davies discussed the schedule of moving funds from Wilshire to USI and how to go about this transition in order to minimize the time out of the investment market. Mr. Cross indicated that once the transition has been completed his team would like to review the assumed rate of return for the Defined Benefit Plans, as well as the indirect expense allocation within these plans.

Mr. Cross and his team are recommending a reduction in the Disability Plan expense allocation and an increase the UOPP expense allocation. These recommendations are due to the total time and resources spent among the plans; currently, the UOPP and Disability Plans take up the majority of the resources. Mr. Cross also recommended that the assumed rate of return for UOPP be reviewed and adjusted upward. He stated that a rate of return of 7.25% was reasonable, and that he would present this recommendation to the full Board after some additional review.

Mr. Cross informed the board that USI allows their larger clients like Knox County to interview the portfolio managers who directly manage their funds inside the portfolios. There may be an opportunity for this sometime in September of 2018. Mr. Cross indicated that air travel and room would be the responsibility of the Committee members that chose to join USI on this trip. Mr. Cross explained USI will evaluate what date would work for everyone and discuss this again at a later date.

Mr. Chris Caldwell made a motion to recommend changing the indirect expense allocations to the Defined Benefit Plans by decreasing the expense allocation to the Disability Plan and increasing the UOPP expense allocation. The motion was seconded by Commissioner Schoonmaker and approved.

IN RE: APPROVAL OF DC PLANS AND DISABILITY INVESTMENT POLICY STATEMENT

A motion was made by Mr. Chris Caldwell to update the Asset Accumulation investment policy statement. The motion was seconded by Commissioner Schoonmaker and approved. A motion was made by Commissioner Nystrom to update the 457(b) investment policy statement. The motion was seconded by Mr. Zack Webb and approved. A motion was made by Commissioner Schoonmaker to update the Medical Expense Retirement Plan investment policy statement. The motion was seconded by Mr. Zack Webb and approved. A motion was made by Mr. Zack Webb to update the STAR investment policy statement. The motion was seconded by Commissioner Nystrom and approved. A motion was made by Commissioner Schoonmaker to update the STAR 2% supplemental employer

contribution investment policy statement. The motion was seconded by Commissioner Nystrom and approved. A motion was made by Mr. Zack Webb to update the Disability Plan investment policy statement. The motion was seconded by Commissioner Schoonmaker and approved.

IN RE: REPORT OF KNOXVILLE TEACHERS FEDERAL CREDIT UNION

Mrs. Bennett reviewed the Knoxville Teachers Federal Credit Union. This plan is only available to school employees. The total market value of the Knoxville Teachers Federal Credit Union as of December 31, 2017 is \$1,287,084.

IN RE: NATIONWIDE CHANGES

Commissioner Brantley recognized Mr. Wayne Sellers and his team who provided and update on changes to the Nationwide investment options for the 457(b) plan. Mr. Sellers recognized Mr. Roland Wilson and Mr. Jeff Francis who discussed these changes. Mr. Francis provided an overview of the Nationwide public sector plans and benefits. Mr. Francis explained that Nationwide will be reducing its fees to investors within the Knox County 457(b) plan by approximately 2/3, as well as adding Morningstar as a co-fiduciary over the public sector plans. Mrs. Bennett asked if there was an option to remain with the investment options we currently have or if this was a wide spread change that was taking effect regardless. Mr. Francis indicated that Knox County can remain just as it is, but that the expenses to investors would be at the higher current rate. Commissioner Nystrom noted that a reduction in expenses seems to result in a reduction in the guaranteed rate of return from 3.5% to 3.25%. Mr. Francis explained that the reduction of fees and addition of Morningstar as co-fiduciary would outweigh the .25% guaranteed rate of return reduction. Mr. Francis explained that the main goal is to lower the fees to investors, and that the program will still be the same and access to representatives of Nationwide would still be the same. Mrs. Bennett inquired as to whether the investment options would be changing within the Nationwide investment option. Mr. Francis explained that the options will change and these changes have been overseen by Morningstar for selection. Nationwide funds are specifically selected and then placed under the Nationwide umbrella. Nationwide does not manage funds. Mr. Zack Webb indicated he was not comfortable recommending any changes until the Committee can do its due diligence and determine if these changes are the best course of action. Mr. Webb subsequently made a motion to postpone the decision to make changes to the Nationwide investment options until a special called Committee meeting can be scheduled to do further due diligence on these changes. The motion was seconded by Commissioner Schoonmaker and approved.

ADJOURNMENT

There being no further business to come before the Investment Committee the meeting was adjourned.



Chairman