

KNOX COUNTY RETIREMENT AND PENSION BOARD

INVESTMENT COMMITTEE MEETING

November 15, 2016

A meeting of the Knox County Retirement and Pension Board Investment Advisory Committee was conducted on Tuesday, November 15, at 1:00 p.m. in Room 640 of the City-County Building. The following were in attendance:

Knox County Investment Advisory Committee members:

Chairman; Mr. Nick McBride, Mr. Chris Caldwell, representing Mayor Tim Burchett, Commissioner Ed Brantley, Commissioner John Schoonmaker, Ms. Ashley Huffaker

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

Legal Counsel: Mr. Bill Mason, Mr. John Owings, Mrs. Stephanie Coleman

Retirement Staff: Mrs. Kim Bennett, Mrs. Jennifer Schroeder, Mrs. Janet Rowan

Wilshire Associates: Mr. David Lindberg, Mr. Steve Digirolamo

Nationwide: Mr. Jeff Francis, Mr. Ted Meyers, Ms. Lynn Sutter Beal, Mr. Wayne Sellars, and Mr. Roland Wilson

CenterSquare: Ms. Jackie Brady, Mr. Todd Briddell (by phone)

Others in attendance: Mr. David Buuck, Mr. Ed Shouse

Chairman McBride called the meeting to order and the following proceedings were held:

IN RE: CONSIDERATION OF APPROVAL OF MINUTES OF PREVIOUS MEETINGS

Chairman McBride said the members had received copies of the minutes of August 16, 2016.

After review, Chairman McBride asked to clarify page two paragraph four to specify REIT's underperformance only. A motion was made Mr. Caldwell to approve the minutes for August 16, 2016 with the clarification. The motion was seconded by Commissioner Brantley and approved.

IN RE: NATIONWIDE FIXED INCOME ACCOUNT

Chairman McBride stated questions have been raised regarding the Nationwide fixed income account about restrictions, access, and transfers; the Fixed Account holds nearly half of all Knox County Nationwide 457 Plan assets and almost 40% of all participants have Fixed Account balances. Chairman McBride deferred to Nationwide for further explanation. Mr. Ted Meyers introduced the staff present from Nationwide including, Mr. Jeff Francis, Mr. Roland Wilson, Mr. Wayne Sellars and Ms. Lynn Sutter Beal, who presented the information. Ms. Beal reviewed the Fixed Income Account with the committee, including the range of quality of the underlying securities, the process for Nationwide to establish the fixed rate of return, the competitiveness of the rate and comparisons to various asset class returns, the limited duration of investments, the fees applicable to the account and how those fees are covered by the spread, the views of the various rating agencies as to Nationwide's creditworthiness, oversight provided to the Account, and the analytics Nationwide uses in managing the account.

Chairman McBride and Ms. Bennett asked about liquidity restrictions, particularly with regard to the so-called 20%/year and 60 month withdrawal rules that apply to transfers of account balances from Nationwide to other

457 plan accounts, particularly how a Participant could transfer accumulated balances from the Nationwide Fixed Account to the County 457 Plan, and how long such a transfer would take. Ms. Beal and Mr. Meyers addressed some of those questions, and Mr. Meyers stated that Nationwide would follow up with Ms. Bennett on all outstanding questions.

IN RE: REIT MANAGER, CENTERSQUARE

Chairman McBride stated that Wilshire has recommended that the Board look at alternatives to a REIT Manager after continued underperformance of Adelante. Chairman McBride deferred to Mr. David Lindberg. Mr. Lindberg reported that Wilshire completed a search for alternative replacements for the REIT manager and has recommended that the Board consider CenterSquare, who is present today to give an overview of their firm. Mr. Lindberg introduced Ms. Jackie Brady who was present at the meeting and Mr. Todd Briddell who was attending by phone. Ms. Brady introduced the team and gave an overview of the firm. Mr. Briddell discussed the investment objectives, strategy and process of CenterSquare. The full presentation handout from CenterSquare is filed with the minutes of the meeting.

Mr. Lindberg discussed a comparison of Adelante versus CenterSquare. Mr. Lindberg stated that Adelante is much less diversified which has worked against them. Mr. Lindberg said that CenterSquare has a proven track record which will cover the active management fee and anticipated higher returns. Mr. Lindberg made a recommendation that the Board move from Adelante to CenterSquare for the REIT allocation.

A motion was made by Commissioner Brantley to recommend to the Board a change of the REIT manager from Adelante to CenterSquare. The motion was seconded by Ms. Huffaker and unanimously approved.

IN RE: DEFINED CONTRIBUTION PERFORMANCE REVIEW

Chairman McBride recognized Mr. Bob Cross and his team to present the investment report on the funds in the Defined Contribution Plans. Mr. Adam Davies gave a Financial Market and Economic review.

Mr. Davis reported the following account balances of the Defined Contribution plans as of September 30, 2016 as:

Asset Accumulation Plan:	\$279,548,179
Asset Accumulation 457 Plan:	\$ 17,074,955
Medical Expense Retirement Plan:	\$ 5,290,589
Employee Disability Benefit Plan:	\$ 1,913,522
Sheriff Total Accumulation Retirement:	\$ 1,352,332
Sheriff 2% Employer Supplement Plan:	\$ 167,017

Mr. Davies reviewed the performance of the stand-alone funds as well the funds in the blended options. Mr. Davies reported on each of the funds on the "Watch List": Franklin Adjustable US Govt Secs A, Franklin Small-Mid Cap growth A, JP Morgan Core Bond A, and Voya GNMA Income A. Mr. Davies stated that USI will monitor the funds on the "Watch List" and that there are no recommendations to replace these funds at this time.

Mr. Davies commented on the Ivy Science & Technology Fund stating that it is not a true technology fund. He stated that the Ivy Science & Technology fund is a more volatile fund that exhibits wide shifts in fund performance. Mr. Davies stated that it appears when participants make a change in their investments from the default that they tend

to elect more aggressive investment choices. Mr. Davies concluded that the Ivy Tech fund is actually a good fit for the population because of the aggressiveness of the fund. Mr. Cross reported that actual participation in the fund is relatively low, with around \$400,000 invested and he advised the Committee to continue to watch the fund and there is not an immediate need to replace the fund.

Mr. Davies conducted the annual review to the Target Date Funds. Mr. Davies stated that the T. Rowe Price Target Date Funds use a glide path "through" retirement. Thus, those Target Date funds are somewhat more aggressive than other Target Date funds but they continue to outpace other comparable funds and the fees are competitive 55 bps.

IN RE: DEFINED BENEFIT PLAN PERFORMANCE REVIEW

Mr. Lindberg presented the executive summary of the investment performance for the quarter ending September 30, 2016 on the Defined Benefit Plan, Teachers Plan and Uniformed Officers Pension Plan (UOPP). He reported that performance for the total fund lagged the policy index for all periods reported, and he discussed with the Committee some of the reasons for that performance.

The total market value of the DB/Teacher's Plans as of September 30, 2016 was \$104,189,352 and the Uniformed Officers Pension Plan total market value as of September 30, 2016 was \$156,791,051.

IN RE: REPORT FROM 457 PLAN

Chairman McBride stated that the committee members had received the Knoxville Teachers Federal Credit Union Report.

ADJOURNMENT

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



Chairman