



Legislation Text

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DATE: November 12, 2018

TO: Board of Mayor and Aldermen

FROM: Eric Stuckey, City Administrator
Kristine Tallent, Assistant City Administrator/Chief Financial Officer

SUBJECT:

Consideration of Agreement (COF Contract No. 2018-0238) Between The City And The State Of Tennessee, Department Of Treasury, For The Provision Of Certain Investment Management Services For The City's Closed Defined Benefit Pension Plan. (11/27/18 WS)

Purpose

The purpose of this memo is to provide information to the Franklin Board of Mayor and Aldermen (BOMA) concerning an agreement between the City and the State of Tennessee, Department of Treasury, for the provision of certain investment management services for the City's closed defined benefit pension plan.

Background

On December 16, 2016, the City entered into an agreement with the State of Tennessee, Department of Treasury (the "State") for the investment management of assets of the City's defined benefit pension plan. (This plan was closed to new hires as of December 31, 2016.) At that time, the State would not assume management of the City's pension assets which did not conform to their own investment policy. As of 6/30/2018, the value of the nonconforming assets was \$7,121,162, which represents 6.7% of all pension assets of \$106,702,252. These nonconforming investments are best described as long term in duration and represent investments in the areas of timber and real estate. The City has continued oversight of these investments, including accounting for returns within a separate account held by US Bank.

State staff has reviewed the six holdings within the nonconforming investments and agrees with the City's strategy to allow these investments to mature over time. As such, the State has offered to assume management of these specific investments beginning January 1, 2019 and account for their returns separately from the City's closed pension assets that are in compliance with the State's investment policy.

Financial Impact

The State agrees to maintain the same fee structure for these additional assets as they charge for the majority of the City's closed pension assets. The City's pension investment fees have dramatically decreased since the agreement with the State in late 2016. Calendar year 2016 fees were \$578,256 compared to \$193,840 in 2017, when approximately 90% of the assets were managed by the State. We should receive some additional

reduction in fees when the remainder of the assets are managed by the State. We also expect to streamline our year end asset reconciliation process when all assets are managed by the same provider. (We currently reconcile assets and bank statements from two banks.) Staff recommends approval