

**TML RISK MANAGEMENT POOL
BOARD OF DIRECTORS MEETING
DATE OF MEETING, FEBRUARY 21, 2014
BRENTWOOD, TENNESSEE**

The Board of Directors of the TML Risk Management Pool met on February 21, 2014 at 10:00 a.m. at the Pool's office in Brentwood, Tennessee.

Board Members present included: Chair Tommy Green, Vice-Chair Sam Tharpe, Curtis Hayes, Regina Holt, Dale Kelley, Tom Rowland, Kay Senter and Ken Wilber. Pete Peterson joined the meeting via telephone conference call. Dale Kelley was previously elected as President of the Tennessee Municipal League ("TML") and joined the Pool's Board of Directors as Ex Officio Board member.

TML Pool staff present were: Dawn R. Crawford, President/CEO; Jon Calvin, Director of Underwriting; and Charles DeMore, Executive Vice President and Chief Financial Officer.

Also present were Russ Farrar, General Counsel; Gwelda Swilley-Burke with Callan & Associates, Inc.; and, guest John Mooneyham.

1. APPROVAL OF MINUTES

Motion was made by Rowland to approve the minutes of the November 22, 2013 Board meeting; seconded by Kelley. **PASSED UNANIMOUSLY**

2. INVESTMENT ANALYSIS REPORT FOR CALENDAR YEAR 2013

Gwelda Swilley-Burke with Callan & Associates, Inc. opened her presentation with comments about how general market conditions during 2013 were tough for fixed income securities which had their worst year since 1994. She then directed attention to a report entitled *Investment Measurement Service Annual Review* which presents an executive summary of the Pool's investments' performance for the year ended December 31, 2013. The Pool's portfolio was comprised of approximately 96% fixed-income securities and 4% cash and cash equivalents at year-end.

Ms. Swilley-Burke pointed out that the Pool's portfolio composite return for 2013 was a negative 8.19%, representing the broad fluctuations in market conditions. In reviewing the portfolio's performance, she pointed out that the portfolio consists of approximately 30% agency securities and the remainder being municipal securities and that there is no real "apples-to-apples" benchmark comparisons due to this mixture. The related benchmarks for both of these types of securities each reported negative results for 2013 as well: Barclays Agency Index-negative 1.38%; and, Barclays Municipal Index-negative 2.55%.

She commented that while the Pool's results may not look good in the report, they are indeed unrealized or "paper" losses due to the Pool's philosophy of hold-to-maturity. Referring to the report, Swilley-Burke noted that while the duration and average life of the Pool's agency and municipal securities are greater than the benchmarks, the Pool's effective yields are also greater than each of the benchmarks, which is what the Board intended to achieve as part of its investment goals. The effective yield of the Pool's holdings was 3.81% compared with Barclays Municipal Bond Index of 3.15% and Barclays Agency Index of 1.39%. Additionally, as shown in the report, the quality rating of the Pool's

municipal securities exceeded the quality rating of the Barclay's benchmark.

Motion was made by Senter to approve the 2013 Investment Analysis Report as presented; seconded by Tharpe. PASSED UNANIMOUSLY

3. FINANCIAL REPORTS

A. Charles DeMore presented the Statements of Revenues, Expenses and Changes in Net Position for the six months ended December 31, 2013. DeMore stated that gross earned premium was \$32,095,455, or 2.89% more than this time last year and was tracking within 0.16% of projected amounts. He stated that reinsurance premiums ceded of \$4,871,068 was \$160,708 or 3.41% more than last year due primarily to increases in property coverage. Net earned premium was \$27,224,387, which is 2.80% more than the prior year. Investment income totaled \$3,855,002, which was \$252,297 or 6.14% less than last year's actual investment earnings and 6.05% more than this year's budget projections. Total revenues of \$31,236,788 were \$500,915 or 1.63% more than last year's actual revenues.

In the expense category, DeMore stated that total loss and loss adjustment expenses incurred of \$24,813,593 were 2.54% more than last year. Policy acquisition costs of \$3,579,993 were \$36,468 or 1.03% more than last year. Total General and Administrative Expenses of \$3,116,507 were 8.92% or \$255,343 more than last year's actual expenses. However, compared to this year's budget, administrative expenses are \$273,439 or 8.07% less than projected. Total expenses were \$31,510,094 which is 2.96% or \$906,487 more than last year.

Change in Net Position Before Unrealized Gain/Loss on Investments was a decrease of \$273,306, as compared to \$132,265 increase this time last year. This period's change in unrealized gain and loss on investments totaled \$11,985,171 in net unrealized losses, in contrast to this time last year when unrealized gains on investments totaled \$691,178. Change in Net Position was a decrease of \$12,258,477 for the six months ended December 31, 2013.

DeMore reviewed the Statements of Net Position as of December 31, 2013, which presented cash and cash equivalents of \$8,946,514 and investments of \$203,696,552. Premiums receivable were \$3,496,960.

Other assets of \$7,205,799 included accrued interest of approximately \$2.5 million and prepaid reinsurance of approximately \$4.5 million. Reinsurance recoverable on paid losses was \$804,298. Net fixed assets were \$1,784,448, and total assets were \$226,499,777, which is 7.00% less than last year.

Liabilities included net reserves for losses of \$127,593,002, which is a 2.10% increase over the prior year. The reserve for unearned premiums was \$30,241,721; accounts payable and accrued expenses were \$1,461,215; and dividends payable was \$1,548,080. Total liabilities were \$160,844,018. The beginning fund balance of \$77,914,237 decreased by change in net position of \$12,258,477 resulted in an ending fund balance of \$65,655,760 at December 31, 2013.

B. DeMore reviewed the internally-managed fixed income portfolio as of January 31, 2014 as classified by type and maturity. Cash equivalents represent funds invested with the Tennessee Local Government Investment Pool totaling \$6,199,267 with an average return of 0.10%.

The Pool's portfolio was comprised of 53 municipal bonds, 24 agency bonds and had a book value of \$227,017,441 and a market value of \$211,486,369 with an average coupon of 4.059%.

DeMore commented that while the unrealized loss on investments was \$15,531,072 at the end of January 2014, that amount had decreased to \$16,331,801 on the day before the Board meeting and was

expected to fluctuate consistent with current market activity.

Motion was made by Holt to accept the financial reports as presented; seconded by Hayes. Chairman Green asked if there were any questions. Chairman Green called for a vote. PASSED UNANIMOUSLY

4. DATE OF NEXT MEETING

The date of the next Board meeting will be Saturday, June 21, 2014 at 8:30 a.m. in Chattanooga, Tennessee in conjunction with the Tennessee Municipal League's annual conference location.

5. OTHER BUSINESS

A. Crawford informed Board members about the upcoming National League of Cities Trustees conference to be held in San Diego, CA and asked that anyone planning to attend inform Lynn Kirby for registration and travel accommodations.

MEETING ADJOURNED AT 10:23 a.m.

Tommy Green, Chair

Charles DeMore, Secretary