

**Minutes of the Meeting of the Investment Committee**  
**June 29, 2018**

The Investment Committee of the Tennessee Consolidated Retirement System (TCRS) met on June 29, 2018 in the Cordell Hall Building. The Honorable David H. Lillard, Jr., State Treasurer, called the meeting to order at 9:00 AM. Investment Committee members in attendance included: Treasurer Lillard; Honorable Tre Hargett, Secretary of State; Honorable Justin Wilson, Comptroller of the Treasury; Bill Kemp, Sumner County Clerk; Bob Wormsley, President/CEO of Local Government Insurance Pool. Additional attendees included: Keith Boring, Director of Policy & Research; William Wood, Comptroller's Office; Michael Brakebill, Chief Investment Officer; Derrick Dagnan, Deputy Chief Investment Officer; Michael Keeler, Director of Equity; Thomas Kim, Director of Fixed Income; Carrie Green, Senior Portfolio Manager; Jeff Dunn, Senior Portfolio Manager; Matthew Haitas, Senior Portfolio Manager; Stephen Wright, Real Estate Analyst; Jennifer Selliers, Investment Compliance Officer; Austin Monsrud, Junior Investment Analyst; Collin Pounders, Summer Intern; Austin Wheeler, Summer Intern

Treasurer Lillard began the meeting with a motion to approve the minutes from September 5, 2017 (amended), March 23, 2018 and May 23, 2018. The Motion was seconded by Mr. Wormsley and was approved unanimously by voice vote. The Treasurer then asked Derrick Dagnan to present a strategic lending transaction for approval.

Mr. Dagnan recommended an allocation of \$1 billion to Antares Separately Managed Account which the Investment Committee was first notified of at the March meeting. Mr. Dagnan outlined the strategy, whereby TCRS would contribute to a diverse portfolio of credit facilities for private equity owned middle market companies. Resulting from a quality existing partnership with Antares via Parthenon Loan Funding LLC, TCRS was presented this opportunity which includes a reduced management fee and attractive risk adjusted return. Though the commitment size is \$1 billion, at full maturity the amount expected to be drawn is between \$150 million and \$400 million. Attesting to this, Mr. Dagnan noted that in the 12 years since 2006, the maximum amount drawn for this strategy has never exceeded 37%. The strategy has a long track record with a low loss ratio.

Treasurer Lillard then highlighted the diligence that he and staff performed in the evaluation of this opportunity including individual meetings with each member of the Investment Committee, discussions with TCRS consultant TorreyCove and reviewing a liquidity stress test with a credit rating agency. Mr. Dagnan elaborated that under the most extreme assumptions, the addition of this strategy to the portfolio would have an insignificant impact on liquidity. Mr. Dagnan continued that as this would be a separate account, staff has the ability to end the investment period upon short notice.

Mr. Wormsley then motioned to approve the transaction which was seconded by Treasurer Lillard. The motion was approved unanimously by voice vote.

The Treasurer called on Mr. Jeff Dunn to provide an update on recent strategic lending transactions. Mr. Dunn began by notifying the committee of an increase in allocation approved by Treasurer Lillard of \$50 million to Waterfall Rock Island, which was first committed to in 2014. The increase brings the total commitment to \$200 million of the maximum approved commitment of \$500 million. Mr. Dunn then informed the Investment Committee that the separately managed account with Brigade Opportunistic Credit Fund 16 is set to expire at the end of August and that staff has decided not to renew. Instead, the allocation to GoldenTree Opportunistic Credit Account which received approval at the March meeting will replace Brigade in the portfolio.

Mr. Michael Brakebill then asked Mr. Matthew Haitas to discuss activity within the real estate portfolio. Mr. Haitas informed the Investment Committee of the recent and purchase of Crabtree Overlook, an office

building in Raleigh, North Carolina noting that the investment is off to a great start with occupancy now up to 100%.

Mr. Haitas then updated the Investment Committee on the real estate separate account search that Staff recently completed. During 2018, the contracts for 6 Real Estate Advisors were scheduled to expire. TCRS real estate consultant, Townsend, and the State of Tennessee's legal team issued a request for proposal (RFP) and screened potential managers. Staff sent out 12 questionnaires which yielded 9 responses and the selection of 6 managers. As a result, three existing contracts will expire or be terminated, 3 existing managers will enter into new contracts, and 3 new managers will enter into new contracts. Contracts for Blackrock, Clarion and Barings will be allowed to expire in 2018, and allocations to these managers will be transferred to new contracts with new managers, Heitman, AEW Capital Management, and UBS Realty Investors. Existing managers L&B Realty Advisors, JP Morgan and DWS will begin operating under new contracts.

Mr. Haitas then discussed the REIT portfolio performance which staff strategically allocated \$200 million to in March after noticing a dislocation of public market valuations from the private market. Since inception, the strategies 27 mid to large sized REITs have returned over 7% and are performing as expected. Mr. Brakebill then noted that staff noticed a similar distortion in valuations 5 years ago but did not execute on the trade until the opportunity presented again recently.

Mr. Brakebill then called upon Mrs. Carrie Green to discuss the international equity manager selection process. Mrs. Green noted that contracts for 8 managers were scheduled to expire in 2018. These contracts began in 2008 and were extended in 2013. While the international managers have performed well, the selection process was intended to evaluate the environment for potential discovery of managers that may be better suited to accomplish the goals of TCRS.

Mrs. Green continued by reviewing the changes that Staff recommended and the Treasurer approved for each strategy. As a result of the search process by the General Consultant, Verus, and Staff; contracts for 3 existing relationships will expire or be terminated contracts for 5 existing relationships will be renewed under new agreements, and TCRS will enter into new contracts with 2 new managers. Staff will allow the contracts with Barings and Fidelity Institutional Asset Management, and State Street Global Advisors to expire and increase allocations to other managers. Staff recommended entering new contracts with existing managers; Marathon Asset Management, Panagora, Walter Scott, TT International, and American Century. Staff recommended entering new contracts with new managers; Pzena and WCM. Carrie Green then stated that once all contracts have been finalized a transition trade will begin in July with expected completion in August.

Mr. Derrick Dagnan elaborated on the process, noting that TCRS consultant, Verus, screened the environment for institutional quality managers. Staff then evaluated the list and selected managers seen as a good fit, allowing the team to efficiently allocate resources to the evaluation of top quality managers.

Following the discussion of the international manager selection, Mrs. Green introduced the summer interns. Austin Wheeler is pursuing his M.S. in Financial Mathematics and has been focusing on projects within the fixed income and quantitative portfolios. Colin Pounders is pursuing his MBA in Finance and over the summer has worked on projects involving the IPO market as well as researching CRISPR gene editing for the healthcare sector portfolio.

Secretary Hargett then addressed the investment team concerning the concentration of the international equity portfolio following the implemented changes. Mrs. Green stated that the portfolio is structured to achieve diversification among concentrated managers to help drive higher returns than an index. Mr. Brakebill elaborated that if the portfolio becomes too broad, the result will be equivalent returns to an index

with a higher fee burden. Mr. Dagnan continued to describe that through the different strategies of each individual manager, sufficient diversification is able to be achieved.

The Treasurer then asked Mr. Michael Brakebill to update the Investment Committee on the fund and markets. Mr. Brakebill began with noting the downward revision of GDP growth in the first quarter from 2.2% to 2%. This was weaker than growth in the prior quarter, but the second quarter is expected to be much stronger. Key themes in the markets include low unemployment and the introduction of tariffs, mentioning that the effect on the markets has been concentrated. On the topic of monetary tightening, Mr. Brakebill mentioned that the impact has not been very large yet, but it is expected to become more noticeable going forward.

Mr. Brakebill then turned to portfolio allocation, highlighting the growth of the alternatives portfolios and expressed a neutral market standpoint with continued valuation concerns. With fiscal year 2018 ending today, the return number for the total plan is expected to be just shy of 8%, which is expected to outperform the benchmark.

Comptroller Wilson then raised a question regarding the selection of equity manager verses passive indexing that has a lower fee burden and potentially less risk. Mr. Brakebill responded by displaying that the portfolio has had a better experience through these strategies than indexing. Explaining the selection of managers as a tool in a toolbox, staff continues to monitor the risk and reward of paying fees to participate in more active strategies.

With no further questions, the Treasurer adjourned the meeting at 9:58 AM.

Respectfully submitted,

/s/Michael Brakebill  
**Michael Brakebill**  
**Chief Investment Officer**

APPROVED:

/s/David H. Lillard, Jr.  
**David H. Lillard, Jr.**  
**Chairman of the Board**