

**Minutes of the Meeting of the Investment Committee
March 23, 2018**

The Investment Committee of the Tennessee Consolidated Retirement System (TCRS) met on March 23, 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; Mr. Bob Wormsley, President/CEO of Local Government Insurance Pool; Mr. Bill Kemp; Sumner County Clerk. 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; Daniel Crews, Director of Private Equity; Thomas Kim, Director of Fixed Income; Jeff Dunn, Senior Portfolio Manager; Matthew Haitas, Senior Portfolio Manager; Jay Bullie, Senior Credit Analyst; Jennifer Selliers, Investment Compliance Officer; Gillian Johnson, Assistant Director of Communications; Richard Newton, F&A Division of Budget; Andrew Messer, Investment Risk and Compliance Analyst; Austin Monsrud, Junior Investment Analyst; Margaret Jadallah, Verus Investments.

Treasurer Lillard began the meeting with a motion to approve the minutes from June 23, 2017, September 5, 2017, November 17, 2017, December 12, 2017, January 10, 2018, and February 28, 2018. The motion was seconded by Mr. Wormsley and was approved unanimously by voice vote.

The Treasurer then asked Mr. Jeff Dunn to present strategic lending transactions. Mr. Dunn recommended an allocation of \$150 million, with the ability to increase up to \$500 million with further approval by the Treasurer at a later date, to GoldenTree Opportunistic Credit Account. Dunn explained the investment as a replacement for another separately managed account that Staff has decided to wind down at a later date. Dunn discussed GoldenTree's differentiated strategy and other merits of the investment that the team expects to add value to the portfolio.

Mr. Kemp then motioned to approve the transaction which was seconded by Secretary Hargett. The motion was approved unanimously by voice vote.

The Treasurer called on Mr. Derrick Dagnan to present another strategic lending transaction. Mr. Dagnan recommended a commitment of \$150 million to ICG Europe Fund VII. Mr. Dagnan elaborated on TCRS' existing relationship with the firm between this funds predecessor as well as a recent commitment to ICG North America Private Debt Fund II. Given the existing relationship, firms track record, along with low loss ratio since 1989, Mr. Dagnan explained that staff is confident in ICG's ability to execute this strategy effectively.

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

Mr. Dagnan then discussed a transaction to be proposed at a later date with the full Investment Committee in attendance, due to its unique structure. The investment involves contributing to a diverse portfolio of credit facilities for private equity owned middle market companies. The team expressed the merits of the investment and detailed diligence procedures of its evaluation but ultimately it was decided that further consideration is warranted.

The Treasurer then called upon Ms. Margaret Jadallah of Verus Investments to discuss TCRS performance for 2017. Ms. Jadallah reviewed the Verus Executive Summary Report, which showed the fund ended 2017 with just over \$50 billion in assets under management. The review began by describing the key characteristics of 2017 within the markets which included globally synchronized growth, low inflation, and low equity market volatility. Ms. Jadallah then stated that the TCRS portfolio returned 16.27% for the year, beating its benchmark by 0.70% and significantly beating the actuarial rate of return. International Equities was the best performing portfolio for the plan, returning 29.47%.

Michael Brakebill then continued on performance stating that at their peak, TCRS assets had been valued at over \$52 billion but have since fallen to \$49.5 billion, representing a 5% correction. Noting that staff continues to see high valuations across the capital markets and have been assessing risk accordingly. Brakebill then highlighted that the 10-year annualized return figure of 6.32% outperformed 78% of peers.

Mr. Brakebill concluded by reviewing key initiatives for the year. This included continuing to deploy capital in to the alternative asset portfolios as they build toward their target allocations as well as the expiration of international equity manager contracts this year. Accordingly, manager selection and contract renewals are underway.

Matthew Haitas then provided the committee with a description of a recent real estate investment. Staff identified a dislocation in private real estate valuations and publicly traded REITs, finding that the levels at which REITs are trading at to be significantly below private equivalents. With research of past trends in this divergence and conviction that the valuations would converge, the team decided to invest in a portfolio of REITs identified to possess attractive potential and valuations.

Following Mr. Haitas' update on the real estate portfolio, Thomas Kim then introduced Jay Bullie to the Investment Committee, who joined TCRS in 2017 as a Senior Credit Analyst. Mr. Bullie was previously employed at Fitch Ratings, where he focused on CMBS securities. Mr. Brakebill then introduced Austin Monsrud, who also joined TCRS in 2017 as a Junior Investment Analyst focusing on the alternative asset portfolios.

Seeing no further questions for Mr. Brakebill, the Treasurer then adjourned the meeting at 10:03 AM.

Respectfully submitted,



Michael Brakebill
Chief Investment Officer

APPROVED:



David H. Lillard, Jr. Chairman
TCRS Board of Trustees