

**Minutes of the Meeting of the Investment Committee
May 9, 2017**

The Investment Committee of the Tennessee Consolidated Retirement System (TCRS) met on May 9, 2017 in the WRS Tennessee Tower. The Honorable David H. Lillard, Jr., State Treasurer, called the meeting to order at 10:00 AM. Investment Committee members in attendance included: Treasurer Lillard; Honorable Tre Hargett, Secretary of State; Bob Wormsley, President/CEO of Local Government Insurance Pool; Justin Wilson, Comptroller of the Treasury. Additional attendees included: Richard Newton, F&A Division of Budget; Keith Boring, Director of Policy & Research; William Wood, Comptroller's Office; Mr. Michael Brakebill, Chief Investment Officer; JP Rachmaninoff, Director of Real Estate; Matt Haitas, Portfolio Manager; Neha Sakaria, Portfolio Manager; Andrew Messer, Compliance Analyst.

The Treasurer called upon Mr. J.P. Rachmaninoff to present a real estate investment proposal. Mr. Rachmaninoff asked Matt Haitas to begin the discussion.

Mr. Haitas recommended a \$74.8 million equity investment for the acquisition of Kent Place Residences in Denver. The team discussed the favorable aspects and risk associated with the Denver market, the Cherry Hills Village submarket, and the individual property. It was noted that the property faces limited competition and is well positioned with an attractive amenities for this high-end neighborhood. Mr. Hiatus discussed the transaction which would involve assuming the current long term mortgage, which carries a relatively high cost of 5%. The team views the property as a trophy asset with a long holding period, which helps mitigate some of the concerns.

There was further discussion about the terms of outstanding loan and the impact on the property valuation, return prospects and holding period.

The Treasurer then motioned to approve the acquisition and it was seconded by Secretary Hargett.

Next, Mr. Brakebill asked Mr. Rachmaninoff to discuss the overall real estate portfolio. The current size of the portfolio is approximately \$3.6 billion with a 78% allocation to core properties and a 12% allocation to non-core properties with a maximum limit of 30%. The leverage on the portfolio is less than 12%, which reflects a low risk approach to real estate with attractive returns. Occupancy rates remain high with Industrials performing the best at 100% occupancy. Apartment occupancy continues to performing well and Office occupancies are down on softness in two markets. With respect to property type diversification versus the NPI, TCRS is overweight apartments and industrials and underweight office and retail. Geographically, the portfolio is well diversified and slightly overweight in the Southwest versus the NPI. The team added capital in Boston, LA, and San Francisco and remains underweight NYC because of the large investment size. Overall performance has moderated slightly as the real estate cycle matures. However, lower cap rates have led to an appreciation and helped the portfolio outperform the index in the current year (TCRS 9.65% vs index 7.97%) as well as the 3 and 5 year horizons.

Mr. Brakebill then discussed overall TCRS performance. Fiscal YTD, the portfolio has a 9.5% return with a net increase of \$3.2 billion since June 30, 2016. In April, Staff trimmed the overweight to U.S. equities and is now neutral to the index. Following strong performance, the team also trimmed overweights to Canadian, International Developed, and Emerging equities. Staff continues to monitor the equity allocation given the relative strong performance of International equities. Mr. Brakebill discussed the

ease with which TCRS can buy and sell U.S. equities because of internal management and the process and timing of allocation changes for external managers.

Next, Mr. Brakebill reviewed the fixed income portfolio performance. In FY 2016, the portfolio posted strong absolute returns of 10.6%. However, in FY 2017 the absolute return is down about 2%. He contrasted this to weak overall equity performance last year versus this year with International Developed up 19%, Emerging up 18%, and U.S. equities up 17%.

The Treasurer asked Mr. Brakebill for a review of fixed income versus equity markets, because it appears the two markets are focused on different underlying fundamentals. Mr. Brakebill discussed various global economic indicators, commodity performance, and the interest rate cycle. In late 2016, interest rates increased from a trough and appeared to form a near term peak in mid/late December. Since then interest rates have declined as the economic fundamentals driving GDP have weakened, but equities have appreciated as corporate earnings fundamentals have improved and potentially positive political initiatives are driving sentiment.

The Treasurer then adjourned the meeting at 10:30 AM.

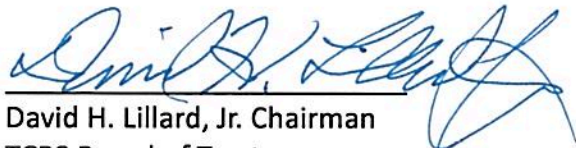
Respectfully submitted,



Michael Brakebill

Chief Investment Officer

APPROVED:



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