

**Minutes of the Meeting of the Investment Committee of the TCRS Board of Trustees
October 27, 2014**

The Investment Committee ("Investment Committee") of the Tennessee Consolidated Retirement System ("TCRS") Board of Trustees met at 2:00 p.m. on October 27, 2014 in the G-11 Conference Room on the ground floor of the State Capitol. The Honorable David H. Lillard, Jr., State Treasurer, called the meeting to order at 2:00 p.m. Investment Committee members in attendance included Treasurer Lillard; Mr. Bill Kemp, Sumner County Clerk; The Honorable Tre Hargett, Secretary of State; and Mr. Bob Wormsley, Local Government Insurance Pool. Additional attendees included Jill Bachus, Director of TCRS; Bill Abney, Assistant to the Treasurer for Investments; Michael Brakebill, Chief Investment Officer; Andrew Palmer, Deputy Chief Investment Officer; JP Rachmaninoff, Director of Real Estate; Matthew Haitas, Real Estate Analyst; Grant Leslie, Senior Portfolio Manager; Derrick Dagnan, Senior Portfolio Manager; Jennifer Selliers, Compliance; Keith Boring, Director of Policy & Research; and Richard Newton, F&A Division of Budget.

Treasurer Lillard opened the meeting by requesting that JP Rachmaninoff present the three real estate transactions on the agenda.

Mr. Rachmaninoff noted that the three transactions include a core, grocery-anchored retail center as well as two build-to-core opportunities. Mr. Rachmaninoff then introduced Matthew Haitas to discuss the core, grocery-anchored retail transaction.

Mr. Haitas proceeded to introduce the proposed investment in Peachtree Square, a grocery-anchored retail center in the Atlanta, Georgia metropolitan statistical area. Regarding portfolio fit, Mr. Haitas addressed the relative underweight to retail in the real estate portfolio and the light exposure to grocery-anchored centers within the retail portfolio. The relative attractiveness of grocery-anchored retail due to less competition from e-commerce as well as the prevalence of necessity and service-oriented businesses within grocery-anchored retail was also highlighted. The above average demographics within the submarket, the volume of traffic, the health of the grocer within the center, and the mix of tenants were addressed as strengths of the property. The key risk addressed was the rollover of the grocer's lease.

Treasurer Lillard highlighted lease rollover as a key risk and inquired into the attractiveness of the valuation of the asset. Mr. Rachmaninoff noted the substantial value of the land given the density in the submarket.

Given no further questions, Secretary Hargett made a motion to approve the transaction, which was seconded by Mr. Kemp. Michael Brakebill conducted a roll call vote, and the Peachtree Square investment was unanimously approved.

Mr. Rachmaninoff then proceeded to introduce TCRS' build-to-core strategy. With a target of 20% - 30% in non-core properties in the real estate portfolio, the build-to-core strategy is a complement to the non-core portfolio. Key components of the build-to-core strategy include

the following: 1) assets of the highest institutional quality in strategic locations, 2) minimal lease-up risk, and 3) assets created at a meaningful discount to current purchase prices. Additional measures to mitigate risk within the build-to-core strategy include the absence of entitlement risk, guaranteed maximum price contracts with qualified general contractors, no construction debt, and experienced development partners.

Mr. Rachmaninoff then proceeded to present Banner Hill, a proposed build-to-core, 351-unit multifamily project in Baltimore's inner harbor. Mr. Rachmaninoff addressed the nature of the site, the proposed timing of the purchase dependent upon approval from all agencies, the absence of a construction loan, the lengthy relationship with the development partner, the key terms of the joint venture, the attractiveness of the location, and the prospective return premium related to creating the asset rather than purchasing a comparable asset.

Treasurer Lillard highlighted the relatively large size of the prospective transaction, the assumption of development risk, and details of the proposed joint venture structure.

Thereafter, Treasurer Lillard made a motion to approve the Banner Hill transaction, which was seconded by Mr. Wormsley. Mr. Brakebill conducted a roll call vote, and the investment was unanimously approved.

Mr. Rachmaninoff proceeded to present the proposed investment in Southpointe, a one million square foot industrial development in the South Dallas Industrial submarket. Mr. Rachmaninoff then highlighted the attractiveness of the location, the ability to construct in phases to de-risk development, the ability to lease the land back to the seller during pre-development, the sizable corporate tenants in the vicinity, the structure of the arrangement with the development partner, the absence of debt in the transaction, the minimal complexity in industrial development, and the attractiveness of new, high quality industrial properties within the submarket.

Treasurer Lillard addressed the risks of development, the somewhat smaller size of the proposed investment in relation to Banner Hill, the attractiveness of the location, the relative simplicity of industrial development, and the prospective returns.

Secretary Hargett then made a motion to approve the Southpointe transaction, which was seconded by Mr. Kemp. Mr. Brakebill conducted a roll call vote, and the investment was unanimously approved.

Treasurer Lillard then asked Andrew Palmer present the two proposed transactions for the strategic lending portfolio – Blackstone Tactical Opportunities II and GSO Credit Alpha I. Mr. Palmer discussed the broad range of opportunities sought within the strategic lending portfolio and noted that both the aforementioned opportunities fit at the higher end of the risk-return spectrum for the strategic lending portfolio. Thereafter, Mr. Palmer asked Derrick Dagnan to present the proposed investments.

Mr. Dagnan first presented Blackstone Tactical Opportunities II. Mr. Dagnan discussed the broader strategy of the fund to pursue best ideas across Blackstone's business lines with an interdisciplinary team. The broad sourcing efforts to generate a portfolio comprised of low-volatility yield investments; opportunistic, capital appreciation-driven private equity and real estate investments; and investments with both current yield and capital appreciation characteristics were discussed. The progress of TCRS' commitment to the predecessor Blackstone Tactical Opportunities fund was also presented.

Treasurer Lillard commented on the role of the Blackstone platform as a key component of the investment's merits, and Mr. Dagnan addressed Blackstone's allocation policy for prospective investments.

Treasurer Lillard then made a motion to approve Blackstone Tactical Opportunities II, which was seconded by Mr. Wormsley. Mr. Brakebill conducted a roll call vote, and the investment was unanimously approved.

Mr. Dagnan then proceeded to address the proposed commitment to GSO Credit Alpha I. Mr. Dagnan provided a brief history on the firm and the scope of its business lines. The opportunistic nature of the strategy across GSO's credit business was discussed, as was the history of the firm offering the strategy in the form of separate accounts prior to launching the commingled fund. Select components of the broad investment strategy – notably direct lending, rescue financing, and opportunistic liquid investments - were discussed as well.

Given no questions related to GSO Credit Alpha I, Treasurer Lillard made a motion to approve the proposed investment, which was seconded by Secretary Hargett. Mr. Brakebill conducted a roll call vote, and the investment was unanimously approved.

Treasurer Lillard then asked Mr. Brakebill to provide a brief overview of the portfolio.

Mr. Brakebill noted the portfolio had declined in value roughly 1.5% since the end of the fiscal year. Fixed-income performed well at 2.5% since June 30th, while developed international equities have declined roughly 9%.

Recent reviews of the developed international equity managers have led to several changes, including the reduction of exposure to one manager and the proposed change in mandate for an existing international developed small capitalization manager.

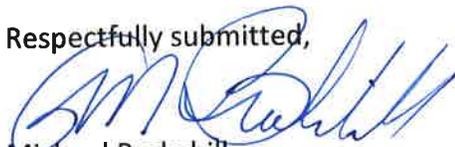
Regarding the macroeconomic environment, Mr. Brakebill discussed the softening of economic activity in Europe and Asia as well as a slowing of the U.S. economy. Recent gains in the fixed income portfolio are largely attributed to these three pillars of the global economy slowing.

Mr. Palmer then provided brief commentary on the fixed income markets. Despite the Federal Reserve's decision to taper its purchases of treasury bonds a year ago, interest rates have declined this year. Current expectations are for quantitative easing to end, but greater

uncertainty remains about the timing of the Federal Reserve's decision to raise short term interest rates. As a result, volatility has escalated in both the fixed-income and equity markets.

Treasurer Lillard subsequently adjourned the meeting at 2:56 p.m.

Respectfully submitted,



Michael Brakebill

Chief Investment Officer

APPROVED:



David H. Lillard, Jr. Chairman

TCRS Board of Trustees