

Minutes of the Meeting of the Investment Committee
June 24, 2016

The Investment Committee of the Tennessee Consolidated Retirement System ("TCRS") met at 9:00 a.m. on June 24, 2016 in Room 31 of Legislative Plaza. The Honorable David H. Lillard, Jr., State Treasurer, called the meeting to order at 9:00 a.m. Investment Committee members in attendance included: Treasurer Lillard; Mr. Bill Kemp, Sumner County Clerk; and Bob Wormsley, President/CEO of the Local Government Insurance Pool. Additional attendees included: Michael Brakebill, Chief Investment Officer; Derrick Dagnan, Deputy Chief Investment Officer; Daniel Crews, Director of Private Equity; Grant Leslie, Senior Portfolio Manager; Carrie Green, Senior Portfolio Manager; J.P. Rachmaninoff, Director of Real Estate; Thomas Kim, Director of Fixed Income; and Jennifer Selliers, Compliance Officer.

Treasurer Lillard began the meeting with a motion to approve the minutes from March 18, 2016 and April 20, 2016. The motion was seconded by Mr. Wormsley and was approved unanimously by voice vote.

The Treasurer then asked Daniel Crews to present Private Equity transactions. Mr. Crews introduced Grant Leslie to present a proposed commitment of €200 million to BC Partners European Capital X, L.P. to the Investment Committee. Mr. Leslie discussed the merits and risks of investing in the European buyout fund. Treasurer Lillard then asked for any comments or questions from the Committee. A motion was then made by the Mr. Kemp to approve the commitment to BC Partners Fund X. The motion was seconded by Mr. Wormsley and unanimously approved.

Next, Mr. Crews asked Carrie Green to review a proposed commitment of \$75 million to EMR Capital Resources Fund II, L.P. Ms. Green discussed the relative merits and risks of investing in the global mining-based private equity fund. Treasurer Lillard made a motion to approve the commitment to EMR Capital Fund II. The motion was seconded by Mr. Wormsley and unanimously approved.

Treasurer Lillard then called for J.P. Rachmaninoff to discuss Real Estate. Mr. Rachmaninoff began by seeking approval of the Investment Committee for a proposed \$221.3 million investment in the IAC Industrial Portfolio. Mr. Rachmaninoff discussed the relative merits and risk of investing in the 19 property core industrial portfolio located in seven primary metro U.S. cities. Mr. Kemp made a motion to approve the purchase of the portfolio. The motion was seconded by Mr. Wormsley and unanimously approved.

Afterward, Mr. Rachmaninoff presented a proposed \$65.1 million investment in 400 East 57th Street, New York, NY. Mr. Rachmaninoff discussed the relative merits of investing in the 80% joint venture interest in the 261 unit multifamily building. Treasurer Lillard made a motion to approve the purchase of the portfolio. The motion was seconded by Mr. Wormsley and unanimously approved.

Next, Treasurer Lillard called Mr. Brakebill to discuss the portfolio. Today, the current value of the portfolio is \$43.2 billion compared to the June 30, 2015 market value of \$43.2 billion. Mr. Brakebill noted the vote last night to leave the European Union by United Kingdom would likely have a negative impact on the portfolio in the short run.

Mr. Brakebill then discussed the disclosures packet of alternative investment transactions that were \$75 million or less in value and previously had been approved by the Treasurer. The only entry was the disposition of a real estate office asset in Glen Mills, PA.

Next, Mr. Brakebill discussed the results of the recruiting efforts to fill several openings within the Investment Division of TCRS. Mr. Dagnan introduced Jeff Dunn, the new Strategic Lending Portfolio Manager. Ms. Green introduced Joel Charalambakis, attending Vanderbilt University and Jeff Entin, attending the University of Tennessee, both of whom are summer interns on the investment team. Next, Ms. Green introduced Jacob Percy, Junior Investment Analyst focusing on the eFront alternatives investment system. After, Thomas Kim introduced David Bradbury, Fixed Income Portfolio Manager.

Mr. Brakebill then discussed the Emerging Markets country screening and allocation methodology employed by Investments. The methodology evaluates countries on corruption and a democracy scores, identifies a list of approved countries for investment and reallocates funds from excluded countries. Qatar has moved inside the screen, but is not investable at this time. The methodology currently eliminates potential investments in Russia, China, and Egypt.

Mr. Brakebill discussed the process for selecting International Equity managers and noted that efforts to source new managers will continue throughout the summer. He also introduced the Verus capital markets outlook that specifies the outlook for various asset class returns and the variability of those returns. He noted that recent legislation will allow TCRS to increase the allocation to alternative assets, which should improve the risk adjusted return for the overall portfolio.

Mr. Brakebill also discussed recent efforts focused on Staff continuous education. During the Fiscal Third Quarter, the entire Investments Division completed a study of *Superforecasting – The Art and Science of Prediction* by Philip Tetlock and Dan Gardner. Staff learned about the importance of meaningful forecasting, analytical pitfalls, and forecast measurement. The outcome of this effort has been regularly updated market forecast that are measured for accuracy.

Then, Mr. Brakebill mentioned the 3-year performance of the Private Equity Portfolio as reported by Verus and timing differences that have created a small difference in the quarterly performance report from Torrey Cove. There will be continued efforts to synchronize the values going forward. He also noted the strong performance of the Private Equity Portfolio and identified the drivers as being a smaller than expected J-Curve effect and improved access to venture capital managers during the 2009 market trough.

Upon seeing no further questions for Mr. Brakebill, Treasurer Lillard adjourned the meeting at 10:00 a.m.

Respectfully submitted,

Michael Brakebill
Chief Investment Officer

APPROVED:


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

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