

Minutes of the Meeting of the Investment Committee of the TCRS Board of Trustees
June 26, 2015

The Investment Committee (“Investment Committee”) of the Tennessee Consolidated Retirement System (“TCRS”) Board of Trustees met at 9:00 a.m. on June 26, 2015, 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; Mr. Bob Wormsley, Local Government Insurance Pool; and Mr. Tre Hargett, Secretary of State. Additional attendees included Michael Brakebill, Chief Investment Officer; Andrew Palmer, Deputy Chief Investment Officer; JP Rachmaninoff, Director of Real Estate; Thomas Kim, Director of Fixed Income; Daniel Toomey, Portfolio Manager; Derrick Dagnan, Senior Portfolio Manager; Daniel Crews, Director of Private Equity; Michael Keeler, Director of Equities; Carrie Green, Portfolio Manager; Matthew Haitas, Real Estate Analyst; Keith Boring, Director of Policy & Research; Shelli King, Communications Director, Treasurer’s Office; Jennifer Selliers, Compliance Officer; Michael Barker, TCRS Board of Trustees; Katie Anderson and summer interns Lana Gavriloa and Michael Hromadka.

Treasurer Lillard opened the meeting by seeking approval for the minutes from the Investment Committee meeting on March 27, 2015. On a motion by Treasurer Lillard seconded by Mr. Hargett, the aforementioned minutes were unanimously approved.

Mr. Rachmaninoff presented Staff’s recommendation to commit \$118.6 million to purchase a 226,200 square foot office building located in Washington, DC. He outlined the rationale for the investment by highlighting the significant capital that had been re-invested in the property since it was originally constructed, the quality tenancy, the 8.5 years average remaining lease term, the building’s competitive amenities, and the outstanding transportation access afforded to tenants. Questions were raised regarding termination rights. Mr. Rachmaninoff noted contract provisions, which protect this investment. Mr. Rachmaninoff explained that TCRS’ adviser had significant relationships for leasing and management services in the DC market and they planned to hire firms they felt most capable of executing the business plan. As there were no further questions, Treasurer Lillard forwarded a motion to approve the recommended acquisition. The motion was seconded by Mr. Hargett and Mr. Wormsley and the proposed investment was unanimously approved.

Mr. Brakebill took to the podium to discuss the overall performance of the portfolio in the quarter ending March 31, 2015. Total return for the fund was 2.4% during the quarter and 8.7% for the trailing twelve month (TTM) period. The March quarter performance was 22 bps ahead of the fund’s index. Mr. Brakebill noted Barry Dennis of Strategic Investment Solutions (SIS), the fund’s advisor, applauded the fund’s active management performance over the last four quarters relative to peers in the industry. The 8.7% TTM performance beat 96% of comparable funds. U.S. equities returned 2.3% in the March quarter and 13.5% for the TTM period which was nearly 1% better than the benchmark greatly exceeding its target performance level. Moving to International equities, Mr. Brakebill noted the 4.3% return during the March quarter beat the index by 73 bps. Fixed Income returned 2.6% in the March quarter roughly in line with its benchmark while TTM performance was 11.1%. Though this strong TTM performance for fixed income was below the index by 31 bps, it significantly

outperformed the commonly used Barclays Aggregate index, which returned roughly 5% over the same period. Mr. Brakebill noted the Real Estate fund returned 2.6% during the March quarter and 11.8% over the prior twelve month period while the Private Equity fund returned 4.5% and 22.0% over the same periods, respectively.

Mr. Brakebill then introduced Ms. Green who gave a brief overview of the internship program before introducing TCRS' two new summer interns, Ms. Gavrilova and Mr. Hromadka. Mr. Brakebill then updated the board on the ongoing search to fill a portfolio manager position within the Real Estate group. He then reminded the board of Mr. Palmer's impending departure from his position as Deputy Chief Investment Officer and Director of Fixed Income to become Chief Investment Officer of the State of Maryland's retirement system at which time Mr. Brakebill asked Mr. Palmer to make a few brief remarks. Subsequently, Mr. Kim was introduced as the new Director of Fixed Income replacing Mr. Palmer. A search for a permanent Deputy CIO is now ongoing. Mr. Brakebill then informed the Board, TorreyCove Partners had been engaged to serve as the fund's new private equity advisor, replacing Cambridge Associates. Finally, Mr. Brakebill noted members of the TCRS staff sat for various levels of the CFA exam.

Looking ahead, Mr. Brakebill made a few comments regarding the tactical asset allocation as it currently stands and forthcoming changes to our Strategic Lending portfolio given General Electric's announced intentions to divest some loan portfolios. He concluded his remarks by forecasting a return of 3-4% for fiscal 2015 with a few trading days remaining before the end of the fiscal year.

Following the conclusion of his remarks, Mr. Wormsley asked for Mr. Brakebill's thoughts on how the fund would react to higher rates once the Federal Reserve begins to raise the Fed Funds rate. He responded with the belief the market will take the rate increase somewhat in stride given the Fed has already widely telegraphed the move and will remain data dependent. Therefore he expects rates will likely remain lower for longer mitigating the actual impact to the economy. One unknown is whether market rates will actually rise following the Fed Funds increase given the amount of liquidity put into the monetary system since the financial crisis and also in light of extremely low yields elsewhere around the world.

Treasurer Lillard subsequently adjourned the meeting at 9:41 a.m.

Respectfully submitted,



Michael Brakebill

Chief Investment Officer

APPROVED:



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