

## **Minutes of the Meeting of the Investment Committee June 28, 2019**

The Investment Committee of the Tennessee Consolidated Retirement System (TCRS) met on June 28, 2019 in the Cordell Hull Building. The Honorable David H. Lillard, Jr., State Treasurer, called the meeting to order at 9:00 AM. Investment Committee members in attendance included: Honorable David H. Lillard, Jr., State Treasurer; Honorable Tre Hargett, Secretary of State; Honorable Stuart McWhorter, Commissioner of the Department of Finance and Administration; Mr. Bill Kemp, Sumner County Clerk; Mr. Bob Wormsley, President/CEO of Local Government Insurance Pool. Additional attendees included: Michael Brakebill, Chief Investment Officer; Derrick Dagnan, Deputy Chief Investment Officer; Daniel Crews, Director of Private Equity; Carrie Green, Director of Equities; JP Rachmaninoff, Director of Real Estate; Matthew Haitas, Senior Portfolio Manager; Thomas Kim, Director of Fixed Income; Jennifer Selliers, Director of Compliance; Katherine Kreuser, Investments Intern, Savana Ortiz, Investments Intern; Logan Brinkley, Compliance Intern; Earle Pierce, Director of Internal Audit; Tim McClure, Assistant Chief Investment Officer and Director of Cash Management; Desiree Jablonski, Portfolio Manager; Austin Monsrud, Junior Investment Analyst.

Treasurer Lillard began the meeting by asking Mr. JP Rachmaninoff to present a real estate transaction for approval.

Mr. Rachmaninoff recommended the sale of Waltham Woods, an office property located in suburban Boston, noting the positive and negative aspects of the property, the historical financial performance of the property, and the future outlook for the property. Commissioner McWhorter requested additional details on the return profile of the property and Secretary Hargett asked about expectations for the sales price in comparison to the minimum sales price from underwriting. Mr. Rachmaninoff stated that bids are expected to exceed the minimum sales price for the property, which would result in a positive return. However, this total return is likely to be lower than the original expectations at underwriting. Mr. Bill Kemp then motioned to approve the disposition, which was seconded by Secretary Hargett. The recommendation to sell the real estate property was approved unanimously by voice vote.

The Treasurer then asked Mr. Rachmaninoff to present the real estate performance overview and market outlook.

Mr. Rachmaninoff began by stating the real estate portfolio is primarily core investments at 85%, 10% non-core (value add and opportunistic), and 5% REITS. The overall portfolio has outperformed its benchmark over the 1-, 3-, and 5-year time periods. The core real estate portfolio underperformed the index over the 1-year period, but added value over longer time periods. This was primarily due to asset transfers that occurred following the separate account advisor search in 2018. Commissioner McWhorter asked about the process and duration of the separate account advisor search and subsequent transition. Mr. Rachmaninoff replied that the search began on January 1, 2018, concluding on June 30, 2018 with a thirty day transition period following the selections. The non-core real estate portfolio has outperformed compared to the non-core index across all time periods reported. Mr. Rachmaninoff also highlighted the creation of a REIT allocation, which added 63 basis points in excess return over the 1-year period. Mr. Brakebill noted that the REIT portfolio is a unique strategy for TCRS compared to peers. Mr. Rachmaninoff provided a review of portfolio diversification by property type and region. Mr. Wormsley recalled past investments made in mall properties and mall fund strategies and asked for a comparison of investment performance. Mr. Rachmaninoff stated that mall investments have underperformed the benchmark due to the retail environment; however, the portfolio has enjoyed positive relative

performance resulting from a strategic 400 basis point underweighting to the sector. Secretary Hargett then noted that value added and opportunistic fund investments outperformed individual properties and questioned if this may be due to the increased diversification. Mr. Matthew Haitas explained that the General Partners of fund investments have a larger appetite for risk through the use of leverage and staff utilizes less leverage. Mr. Rachmaninoff then asked Mr. Haitas to provide an overview of the REIT strategy. He began by stating the REIT strategy was implemented in March 2018 and has produced strong returns. He then provided an overview of yield spreads compared to real estate and core fixed income returns. Mr. Haitas noted the portfolio's REIT exposure would be tactically increased or decreased depending on public and private market conditions.

The Treasurer then called on Mr. Michael Brakebill to review the TCRS portfolio. Mr. Brakebill highlighted that the TCRS portfolio has produced a 7.5% return resulting in \$4.3 billion of growth over the three month period ending March 31, 2019. This time period represented a dramatic uptick from a significant low period that occurred on December 24, 2018, three months prior. Mr. Brakebill also noted the 10-year annualized return of 9.9%, pointing out this represents ten years since the lowest point of the financial crisis that occurred in March 2009. Mr. Brakebill then asked Mr. Derrick Dagnan to provide a key initiatives update.

Mr. Dagnan began by providing notification of investment activity approvals that have been approved by the Treasurer since the March 29, 2019 TCRS Board of Trustees Investment Committee meeting. For Private Equity, Treasurer Lillard approved a \$30 million commitment to Drive Capital Fund III and a \$40 million commitment to Drive Capital Overdrive Fund I on April 1, 2019 as well as a secondary purchase that would increase commitments to General Catalyst IX by \$25 million to the approved \$90 million commitment on May 6, 2019. For Real Estate, Treasurer Lillard approved the acquisition of a \$61.4 million in an apartment complex near Miami, Florida on June 17, 2019, and also approved the disposition process for a St. Petersburg, Florida apartment complex and two industrial properties in Chicago, Illinois on May 29, 2019.

Mr. Dagnan then provided updates on TCRS key initiatives. Regarding personnel, two summer interns have joined Treasury Investments, Katherine Kreuser and Savana Ortiz. Desiree Jablonski also joined the private equity investment team as a portfolio manager. Mr. Dagnan discussed the implementation of three new internal investment portfolios. In addition, Staff completed two vendor review and selection processes related to master custodian and real estate consultant services.

Seeing no further comments, Treasurer Lillard adjourned the meeting at 10:00 AM.

Respectfully submitted,

**/s/Michael Brakebill**  
**Michael Brakebill**  
**Chief Investment Officer**

APPROVED:

**/s/David H. Lillard, Jr. 9/26/2019**  
David H. Lillard, Jr. Chairman  
TCRS Board of Trustees