

Minutes of the Meeting of the Investment Committee
January 29, 2016

The Investment Committee of the Tennessee Consolidated Retirement System ("TCRS") held a teleconference at 9:00 a.m. on January 29, 2016. The Honorable David H. Lillard, Jr., State Treasurer, called the meeting to order. Investment Committee members participating in the teleconference included Treasurer Lillard, Mr. Bill Kemp, Sumner County Clerk; Tre Hargett, Secretary of State; and Bob Wormsley, Local Government Investment Pool; additional attendees included Michael Brakebill, Chief Investment Officer; Derrick Dagnan, Deputy Chief Investment Officer; Daniel Crews, Director of Private Equity; Matthew Haitas, Portfolio Manager; and Jennifer Selliers, Compliance Officer.

Treasurer Lillard opened the meeting by reading the Statement of Necessity:

Tenn. Code Ann. §8-44-108(b)(2) provides that in the event that a governing body does not have a physical quorum of the members present at the location of the meeting, then a quorum of members can participate by electronic or other means as long as the governing body makes a determination that a necessity exists for the teleconference participation. The necessity determination and a recitation of the facts and circumstances on which it is based, must be included in the minutes of the meeting. The Committee determined that it was necessary to meet by teleconference so that it could consider proposed investments for the Tennessee Consolidated Retirement System in a timely manner. In order to meet the established time frames to complete these investments, the Committee determined that there was not enough time to convene a physical quorum of the Committee for the expeditious consideration of this investment, necessitating that the Committee meet by electronic or other means of participation through a teleconference.

After the statement was read, Treasurer Lillard made a motion to approve the resolution of Statement of Necessity. The motion of approval was seconded by Secretary. Hargett and unanimously approved.

Treasurer Lillard called for Daniel Crews to discuss the Private Equity transactions. He began by seeking approval for the participation in Advent Fund VIII. TCRS would commit \$125 million for participation in Advent GPE Fund VIII. TCRS previously committed \$100 million to Advent GPE Fund VII. Advent has a global footprint with one of the largest teams in private equity. Over time, the firm has delivered one of the best track records in the industry, with consistent performance across vintages, economic sectors, and investment sizes. In addition, Advent offers investors outstanding reporting and communications. Advent is one of the cornerstones of the TCRS buyout portfolio, and this Fund offers the opportunity to expand our relationship with a top private equity manager. Advent eliminated preferred returns, which protects TCRS from potential downside if the fund has low returns for this fund. Treasurer Lillard made a

motion to approve Advent GPE Fund VIII. The motion was seconded by Mr. Wormsley and unanimously approved.

Daniel Crews then discussed the participation in the Berkshire Fund IX. TCRS has a \$40 million commitment in the Berkshire Fund IX, which was approved by Treasurer Lillard on December 9, 2015 and closed on December 18, 2015. TCRS has an existing relationship with Berkshire Partners with a prior commitment of \$20 million to Berkshire Fund VIII, L.P. in May 2011. Berkshire Partners is a venerable, Boston-based private equity firm that has provided investors with attractive returns since the 1980s. The firm focuses primarily on control-oriented investments in the following sectors: consumer products and retail, business services, communications, industrials and transportation. Noteworthy, historical investments by Berkshire Partners include Bare Essentials, Crown Castle, and Party City.

Next, Mr. Crews discussed the participation in DFJ Venture Fund XII. TCRS has a \$25 million commitment in the fund, which was approved by Treasurer Lillard on January 26, 2016. DFJ XII marks TCRS's third investment with DFJ, a leading Silicon Valley venture capital firm focused on investing in early stage technology. DFJ seeks to invest in companies led by extraordinary, passionate entrepreneurs who have a strong vision for changing the world and who aim to disrupt large, incumbent-driven industries. This commitment will help maintain TCRS's modest exposure to high-risk, high-return "disruptive" companies. DFJ is a premier venture capital brand, having produced successful companies such as Hotmail, Skype, and Tesla.

Treasurer Lillard then called for Derrick Dagnan to present the Strategic Lending transactions. Derrick began with seeking approval of the Hayfin Direct Lending Fund II. TCRS would commit \$100 million for the fund. Hayfin is one of the three clear leaders in European Direct Lending to middle market companies. This strategy originates 5-7 year senior secured floating rate loans to private sponsor-backed and independent companies in Western European markets and aims to earn a gross IRR of 8-10%. Compared to the U.S. liquid leveraged loan market, the EU market historically earns a yield premium. Hayfin has demonstrated ample access to opportunities that earn this excess spread and the portfolio characteristics indicate a very attractive risk-adjusted return compared to the U.S. leveraged loans. TCRS invested in Fund I and holds an advisory board seat. TCRS will be investing in a U.S. Dollar sleeve of the fund and will seek to obtain an advisory board seat in Fund II. Treasurer Lillard made a motion to approve Advent GPE Fund VIII. The motion was seconded by Mr. Wormsley and unanimously approved.

Then, Mr. Dagnan discussed the participation in Copper Hill Loan Fund I. Staff recommended a \$50 million increase to the Copper Hill allocation, which was approved on December 5, 2015 by the Treasurer. Credit Suisse operates the Copper Hill separate account and the strategy invests in U.S. leveraged loans. In the fall of 2015 stress in below investment grade markets caused the leveraged loan index to sell off 1.9% and the index price traded in the low 90s. Staff views this as a good opportunity to expand an investment with an existing manager that has consistently provided above benchmark returns. The total allocation for Copper Hill now stands at \$150 million.

Mr. Dagnan then proceeded to discuss the Beach Point SCFIV LLC Fund. Staff recommended a \$50 million increase to the Beach Point allocation, which was approved on October 12, 2015 by Treasurer Lillard. Beach Point manages an opportunistic credit mandate that invests in liquid high yield bonds and leveraged loans. Beach Point has largely avoided the pit falls that impacted many opportunistic credit managers in 2014 and 2015. In the first three quarters of 2015, leveraged loans produced lackluster results and the high yield bond market was down 2.4%. Staff viewed the sell off as a good opportunity to expand the Beach Point allocation and now the current allocation stands at \$250 million.

Lastly, Mr. Dagnan discussed the participation in the Hayfin Special Opportunities Fund II. TCRS committed \$50 million to the Fund, which was approved by Treasurer Lillard on January 26, 2016. The Special Opportunities Fund provides capital solutions to Western European private companies facing operating stress or temporary capital disruptions. This is a special situations strategy where approximately 80% of the portfolio will be a senior secured floating rate loan with equity warrants. Through Fund I, Hayfin has demonstrated access to attractive opportunities that meet the risk and return objectives with 60% of the fund being primary origination and 40% from secondary market trades. TCRS will be investing in a U.S. Dollar sleeve of the fund.

Treasurer Lillard then called for Matthew Haitas to present the Real Estate transactions. Mr. Haitas began with notifying the Investment Committee of two past transactions of the Real Estate portfolio. He discussed the disposition of the Parmer Business Park in Austin, Texas, which was approved by Treasurer Lillard on October 12, 2015 for a minimum of \$55 million. Parmer Business Park ("the Property") is a 256,737 square foot office park located in Northwest Austin and comprised of 6 single-story office buildings. The Property is currently 100% occupied by four tenants including Apple, Oracle, GTECH, and Alchemy Systems. TCRS acquired the Property on July 12, 2012 at a purchase price of \$38.5 million. The transaction closed on January 15, 2016 at a sales price of \$55.55 million. Next, he discussed the disposition of the Heights of Cityview in Ft. Worth, TX. The disposition was approved by Treasurer Lillard on November 16, 2015 for a minimum of \$39.5 million. The Heights of Cityview ("the Property") is a 344 unit garden style multifamily property located in Southwest Ft. Worth. TCRS acquired the Property on August 1, 2002 at a purchase price of \$23.85 million. Currently, the property is under contract at a sales price of 40.5 million, which illustrates the aggressive capital market in real estate today.

Mr. Haitas then discussed the acquisition of the asset, Pacific East Mall located in Richmond, CA. TCRS acquired the asset for \$31 million after it was approved by Treasurer Lillard on October 12, 2015. The Pacific East Mall Ground Lease ("the Property") is an 11 acre land site leased to Pacific East Mall, which is an Asian-themed grocery anchored retail center. The property is located in Richmond, CA in the East Bay of the San Francisco MSA. At closing, TCRS acquired the land and will receive ground lease payments through the maturity date of the lease in 2051, assuming all extension options are exercised by the owner of Pacific East Mall.

Mr. Haitas then discussed fund commitments in the Real Estate Portfolio. He described the participation in the Exeter Core Industrial Club Fund II. TCRS committed \$70 million to the fund, which was approved by Treasurer Lillard on November 16, 2015. The Exeter Core Industrial Club Fund II, L.P. is the second in a series of core industrial closed-end commingled funds sponsored by the Exeter Property Group. The fund will continue the strategy pursued in the predecessor fund by implementing a core strategy for industrial acquisitions made in various target markets throughout the United States.

Mr. Haitas then described the participation in the American Real Estate Partners Strategic Office Fund II. TCRS committed \$47.5 million, which was approved by Treasurer Lillard on November 16, 2015. The American Real Estate Partners Strategic Office Fund II, L.P. is the second discretionary fund sponsored by American Real Estate Partners. The fund will continue the strategy pursued by the AREP team since its formation in 2003, focusing on value-added office investments, primarily within the target markets of Washington D.C., Northern Virginia, Suburban Maryland, Philadelphia, Northern New Jersey, and Raleigh-Durham, NC. The Fund will serve as the source of sponsor equity for a series of separate JV acquisitions with AREP's historical institutional partners.

Lastly, Mr. Haitas described the Dividend Reinvestment Plan (DRIP) Election for Lion Industrial Trust and Prologis. The election to reinvest the dividends, which generate a 4% yield or approximately \$6 million of income per year, was approved by Treasurer Lillard on December 9, 2015. Rather than receiving a quarterly cash distribution, the cash will be reinvested into each fund at the current NAV, which is based upon appraised value. Staff believes current NAVs of each fund reflect an attractive discount to current transaction prices. TCRS has participated in the fund since 2005, this plan allows TCRS to continue to grow its industrial exposure in two diversified portfolios.

Treasurer Lillard then called for Mr. Brakebill to give a brief overview of the TCRS portfolio. Mr. Brakebill proceeded by describing the overview of the Real Estate portfolio. Historically, the Real Estate portfolio only invested in core properties, however, recently TCRS has begun expanding into new property investment; value add and opportunistic. These new investments make up 20% of the Real Estate portfolio and contribute to 100-200 basis points of the overall Real Estate portfolio returns. Currently, the Real Estate portfolio has \$3.1 billion in assets, which is 7.8% of the total TCRS portfolio.

Mr. Brakebill then addressed how 2016 has been difficult year for the equity side of the TCRS portfolio. This year has been surprising as US economic data indicated that the market would continue in the upward direction in the fall of 2015. However, since the FED raised the interest rates, the markets have shifted substantially and have softened. As a result, another interest rate hike in 2016 seems less likely. Two other factors that are affecting market today are Mario Draghi's disappointing actions with the European Central Bank and the Japanese Central Bank creating a negative interest rate policy. For 2016, TCRS portfolio is down 3.7% and fiscally down 5.1%. The current value of the TCRS portfolio is \$40.5 billion.

Upon seeing no further questions for Mr. Brakebill, Treasurer Lillard noted the next Board Committee meeting will take place on March 18, 2016. Immediately following, the Board will be provided training session on the various operations of the pension plan. Treasury Lillard then adjourned the meeting at 10:39 a.m.

Respectfully submitted,



Michael Brakebill
Chief Investment Officer

APPROVED:



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