

**Minutes of the Meeting of the Investment Committee
March 18, 2016**

The Investment Committee of the Tennessee Consolidated Retirement System ("TCRS") met at 9:00 a.m. on March 18, 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, Executive Director. Additional attendees included: Michael Brakebill, Chief Investment Officer; Derrick Dagnan, Deputy Chief Investment Officer; Daniel Crews, Director of Private Equity; J.P. Rachmaninoff, Director of Real Estate; and Jennifer Selliers, Compliance Officer.

Treasurer Lillard began the meeting with a motion to approve the minutes from September 25, 2015 and January 29, 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 began by notifying the Investment Committee of two investments with Lightspeed Partners, including a \$25 million commitment to Lightspeed Venture Partners XI and a \$10 million commitment to Lightspeed Venture Partners Select II. He then continued with a review of a commitment of up to \$100 million to Strategic Partners Fund VII. Strategic Partners is the secondary fund investing platform of The Blackstone Group. TCRS has an extensive relationship with Blackstone and has an existing relationship with the Strategic Partners group, having previously committed \$100 million to Strategic Fund VI. Strategic Partners will continue their strategy of leveraging Blackstone relationships as a secondary markets manager. Mr. Crews discussed the relative merits and risks of investing in the fund. Treasurer Lillard made a motion to approve the commitment to Strategic Partners VII. 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 by the Investment Committee for recommendation to sell the suburban office portfolio in West Palm Beach, Florida. Treasurer Lillard made a motion to approve pursuing a sale of the property. The motion was seconded by Mr. Wormsley and unanimously approved.

Next, Treasurer Lillard introduced Barry Dennis, who is the TCRS lead consultant from Verus Investments. Mr. Dennis provided an overview of the investment performance for the calendar fourth quarter of 2015 and the full year of 2015. Mr. Dennis gave a brief overview of the market, and highlighted how difficult it was to create meaningful returns during 2015. This was illustrated through the returns of many pension funds across the country. For the fourth quarter of 2015, TCRS had a return of 2.5% versus its policy benchmark of 2.4%. For the year of 2015, TCRS outperformed the policy benchmark by 54 basis points, which equate to over \$200 million in taxpayer savings in future contributions. For the trailing five years, TCRS returned 7.7%, which is in the 32nd percentile. Mr. Dennis then explained how TCRS had generated the strong returns for the 5-year period, while utilizing a lower risk asset allocation. Mr. Dennis

noted approximately 75% of the \$42 billion pension fund is managed by staff internally. He then commended the TCRS staff for effective management and noted that internally managing the assets generated significant cost savings to plan beneficiaries and State taxpayers.

Next, Michael Brakebill reviewed transactions that occurred since the last meeting. Mr. Brakebill discussed how Private Equity participated in two investments: \$25 million commitment to Lightspeed Partners XI; and a \$10 million commitment to Lightspeed Ventures Select II. Lightspeed is a venture capital firm that is an existing fund manager for TCRS. Mr. Brakebill then discussed that in the Strategic Lending portfolio TCRS elected to increase the allocations in Neuberger Berman and Beachpoint each by \$50 million. Next, Mr. Brakebill discussed the approved dispositions of the Real Estate assets: West Palm Beach; Oakpark Place; and Arboretum. Mr. Brakebill went on to discuss a fund commitment of \$40 million to an existing manager, Normandy, to participate in their new fund, Normandy Real Estate Fund IV.

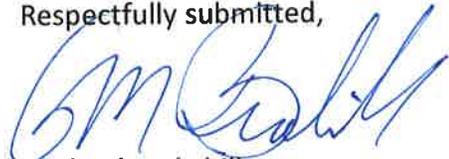
Mr. Brakebill then described the Securities Lending Program, which lends securities to investors who short sell them in exchange for income. Fiscal year to date, the Securities Lending Program generated \$22.6 million. Mr. Brakebill addressed how TCRS has been monitoring the Treasury Managed Fund, which is a unitized version of the pension fund and available to participants of the 401K Plan. The Treasury Managed Fund has been in effect since July 1, 2015, and TCRS has experienced a smooth introduction of this option in the defined contribution plan.

Next, Mr. Brakebill discussed the recruiting efforts underway to fill several openings within the Investment Division of TCRS. He addressed the TCRS custodial relationship with State Street and efforts to improve the interaction and performance related to investment and accounting operations. He discussed how there were three legislative initiatives on the Spring 2016 agenda: improving policy and legal alignment with Dodd-Frank; eliminating the Sunset provision for the Strategic Lending Portfolio; and increasing the maximum allocation for illiquid asset classes.

Mr. Brakebill then discussed portfolio performance. Today, the current value of the portfolio is \$42.2 billion compared to the June 30, 2015 market value of \$43.2 billion. The drop in value is related to benefit payments and a 0.5% total return during the first half of the fiscal year. The performance of the portfolio has increased substantially since mid-February when the value of the portfolio dropped to \$39.5 billion and has since recovered. Lastly, Mr. Brakebill mentioned the equities portfolio is still underweight in equities (U.S., International Developed, Canada, and Emerging Markets).

Upon seeing no further questions for Mr. Brakebill, Treasurer Lillard adjourned the meeting at 9:45 a.m.

Respectfully submitted,



Michael Brakebill
Chief Investment Officer

APPROVED:



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