

Minutes of the Meeting of the Investment Committee
March 31, 2017

The Investment Committee of the Tennessee Consolidated Retirement System (TCRS) met on March 31, 2017 in the WRS Tennessee Tower. The Honorable David H. Lillard, Jr., State Treasurer, called the meeting to order at 9:00 AM. Investment Committee members in attendance included: Treasurer Lillard; Honorable Tre Hargett, Secretary of State; Bob Wormsley, President/CEO of Local Government Insurance Pool; Bill Kemp, Sumer County Clerk; Michael Barker, TCRS Board Member. Additional attendees included: Richard Newtown, F&A Division of Budget; Keith Boring, Director of Policy & Research; Mr. Michael Brakebill, Chief Investment Officer; Derrick Dagnan, Deputy Chief Investment Officer; Margaret Jadallah, Relationship Managers at Verus; Michael Keeler, Director of Equities; Thomas Kim, Director of Fixed Income; JP Rachmaninoff, Director of Real Estate; Earl Pierce, Director of Internal Audit; Tim McClure, Assistant Chief Investment Officer and Director of Cash Management; Daniel Crews, Director of Private Equity; Jennifer Selliers, Compliance Officer; Matt Haitas, Portfolio Manager; David Bradbury, Portfolio Manager; Neha Sakaria, Portfolio Manager; Andrew Messer, Compliance Analyst.

Treasurer Lillard began the meeting with a motion to approve the minutes from November 18, 2016. The motion was approved unanimously by voice vote.

The Treasurer then asked Mr. Crews to present a Private Equity transaction for approval. Mr. Crews began with a performance overview, highlighting the 3.1% quarterly return and efforts to increase the allocation to Private Equity to 10% over the next several years. To achieve this goal the team will increase the pace of investment while being mindful of relative value and the number of manager relationships. Mr. Crews briefly discussed the recent IPO of an underlying portfolio company that will have a significant impact on the performance of the overall portfolio and efforts to monitor the investment going forward. Mr. Crews then recommended a \$200 million distressed credit investment with Redwood Capital and discussed the attributes, risk, and performance of a prior investment. Treasurer Lillard commented on the high level of discipline and self-control Redwood Capital has exhibited when looking for dislocations in credit markets. A motion was made by Tre Hargett to approve the commitment to Redwood Capital. The motion was seconded by Bob Wormsley and approved unanimously.

Mr. Brakebill briefly discussed the Treasurer's previous approval of a \$60 million investment in New Enterprise Associates (NEA) XVI and the sourcing of the investment for this respected Venture Capital manager.

Next, Mr. Rachmaninoff presented a recommendation for approval to invest \$100 million in Carlyle Realty Partner Fund VIII. Mr. Rachmaninoff discussed the key attributes, risks, expected performance for the investment, and Staffs view of existing investments in prior funds. Fund VIII will continue to focus on properties that exhibit need based demand as opposed to jobs based demand (multifamily, age restricted multifamily rentals, student housing, senior housing, manufactured housing and self-storage). Staff previously committed \$50 million to Fund VII and the investment is performing at the top end of expectations with relatively low leverage. The current fund should be fully committed in the near term with distributions to follow thereafter. The Treasurer emphasized the discipline and nuanced approach Carlyle has taken to investments. A motion was made by Mr. Kemp to approve the commitment to Carlyle Realty Partner Fund VIII. The motion was seconded by Mr. Wormsley and approved unanimously.

Then, Matthew Haitas presented a recommendation for the disposition of a suburban office building located in Waltham Woods, MA. The disposition is related to efforts aimed at realigning office property exposure to central business districts. Mr. Haitas discussed the attributes, risks, outlook, and historical

performance of the suburban Boston markets and the property. Following a discussion of expected returns, Treasurer Lillard made a motion to approve the sale of Waltham Woods. The motion was seconded by Mr. Hargett and approved unanimously.

Next, Mr. Dagnan gave a brief Strategic Lending update. Recently, the team had redeemed \$25 million from a High Yield Bond account with Neuberger Berman, increased the allocation to an opportunistic separate account with Beach Point by \$25 million, and increased the allocation to an Oaktree Real Estate Debt separate account by \$25 million.

The Treasurer then asked Mr. Brakebill to move onto the performance review of the portfolio. Mr. Brakebill introduced Margaret Jadallah at Verus, who discussed the economic and investment landscape and gave an overview of the TCRS asset allocation and performance. Ms. Jadallah began by discussing the continuing themes from 2016 of low yields and outperformance of equities in the financial and energy sectors. The equity market had a full year return of 12% combined with a strong U.S. Dollar. The first quarter of 2017 showed moderation as the realizations of the new political agenda and policy projections have slowed. Ms. Jadallah then focused on the new allocations in TCRS out of equities into alternative investments. She highlighted performance that was in line or above peers, specifically the private equity portfolio which outperformed. She also focused on the Equity Quant Fund, which implemented model adjustments to improve performance and is now on track. Finally, Ms. Jadallah briefly discussed the Fixed Income Portfolio. She highlighted strong performance in the Strategic Lending Portfolio, specifically high yield, and pointed out the rotation from high yield into leveraged loans.

Mr. Brakebill then quickly reviewed some personnel changes and efforts to improve staff collaboration during team meetings. He discussed asset allocation changes related to the new investment policy that was approved in November, which increases the allocations for private equity, real estate and strategic lending. He also discussed the extensive review of the private equity and strategic lending portfolios. Finally, Mr. Brakebill discussed strong equity performance that drove the positioning from neutral to overweight and a resulting decision to rebalance \$900 million of equities into bonds.

Finally, the Treasurer discussed the overall return of 7.96% and touched upon risks related to political uncertainties and the new administration in Washington.

Upon seeing no further questions or comments, Treasurer Lillard adjourned the meeting at 10:05 AM.

Respectfully submitted,



Michael Brakebill
Chief Investment Officer

APPROVED:



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