

**Minutes of the Meeting of the Investment Committee  
November 30, 2018**

The Investment Committee of the Tennessee Consolidated Retirement System (TCRS) met on November 30, 2018 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: Treasurer Lillard; Honorable Tre Hargett, Secretary of State; Larry Martin, Commissioner of the Department of Finance and Administration; Bill Kemp, Sumner County Clerk; Bob Wormsley, President/CEO of Local Government Insurance Pool. Additional attendees included: Keith Boring, Director of Policy & Research; William Wood, Comptroller's Office; Michael Brakebill, Chief Investment Officer; Derrick Dagnan, Deputy Chief Investment Officer; Thomas Kim, Director of Fixed Income; Carrie Green, Director of Equity; JP Rachmaninoff, Director of Real Estate; Michael Keeler, Senior Portfolio Manager; Grant Leslie, Senior Portfolio Manager; Matthew Haitas, Senior Portfolio Manager; Stephen Wright, Senior Real Estate Analyst; Austin Monsrud, Junior Investment Analyst

Treasurer Lillard began the meeting with a motion to approve the minutes from September 28, 2018. The Motion was seconded by Mr. Kemp and was approved unanimously by voice vote. The Treasurer then called on Mr. Michael Brakebill to give an overview of the Investment Report.

Mr. Brakebill reviewed the Verus Executive Summary Report, which showed the fund ended the first quarter of fiscal year 2019 with \$50.8 billion in assets. The TCRS portfolio returned 2.71% for the quarter, with small cap and domestic equities posting strong relative returns to their respective benchmarks. On an absolute basis, the international developed and emerging markets portfolios showed weakness compared to US stocks but continue to add value in relation to their benchmarks. Mr. Brakebill mentioned that performance has been challenged since the end of September due to the selloff in the equity markets.

Mr. Brakebill highlighted the strong recent and long term performance in private equity and real estate both on a relative and absolute basis. Mr. Brakebill then discussed the negative impact of rising interest rates on returns in the fixed income portfolios and mentioned that Federal Reserve Chairperson Powell recently stated the rate hike cycle may be slowing as the federal funds rate approaches neutrality. Investments staff will continue to monitor the interest rate environment and its impact on asset classes.

The Treasurer called on Mr. JP Rachmaninoff to present a real estate transaction for approval. Mr. Rachmaninoff recommended up to a \$150 million commitment to Blackstone Real Estate Partners IX. He stated TCRS has several relationships with Blackstone through commitments to the firms GSO, Tactical Opportunities, and Strategic Partners products, highlighting the quality of the existing partnerships along with the strategies strong performance. Blackstone Real Estate Partners has consistently delivered best in class returns, even in challenging markets such as the financial crisis. BREP IX would allow for the real estate portfolio to gain exposure to international markets in addition to opportunities larger than would be feasible from direct investment or the current lineup of commingled funds.

Treasurer Lillard then motioned to approve the transaction which was seconded by Mr. Kemp. The motion was approved unanimously by voice vote.

Mr. Grant Leslie then presented a private equity transaction for approval. Mr. Leslie recommended a \$150 million commitment to Strategic Partners VIII. He stated that Strategic Partners is an existing TCRS manager focused on building well diversified private equity portfolios through secondary purchases of existing private equity funds. The firm has a strong track record over the last seventeen years and secondary funds generally offer investors earlier returns and cash distributions which will serve to bolster the private equity portfolio in its continued building phase.

Mr. Wormsley motioned to approve the transaction which was seconded by Mr. Martin. The motion was approved unanimously by voice vote.

The Treasurer then asked Mrs. Carrie Green to present a private equity transaction for approval. Mrs. Green recommended a \$150 million commitment to Ardian Secondaries Fund VII noting that it is another existing manager for TCRS. Mrs. Green highlighted the growth of the secondaries market and that Ardian's strategy typically involves larger transactions than the Strategic Partners platform which serves as a differentiator between the two programs.

Mr. Kemp motioned to approve the transaction which was seconded by Mr. Wormsley. The motion was approved unanimously by voice vote.

Mr. Derrick Dagnan then presented a strategic lending transaction for approval. Mr. Dagnan recommended a commitment of up to \$450 million to Hayfin Separately Managed Account with an initial commitment of \$300 million. The SMA mandate is intended to be a blend of Hayfin's direct lending and special opportunities strategies, including potential co-investments. Direct lending focuses on new issue, senior-secured, cash-flow, and asset-based lending while special opportunities focuses on more complex situations where the market's perception of the risk is higher than Hayfin's analysis of the actual risk. TCRS has previously committed to both of the strategies and the separate account allows for more autonomy.

Treasurer Lillard motioned to approve the transaction which was seconded by Secretary Hargett. The motion was approved unanimously by voice vote.

Mr. Michael Brakebill then presented several notifications including the recent approval for the acquisition of an apartment building near downtown Raleigh, North Carolina. He then discussed Mrs. Carrie Green's promotion to Director of Equity and highlighted her utility to Treasury. The former Director of Equity, Mr. Michael Keeler, will continue to manage the mid cap public equity portfolio.

Mr. Michael Brakebill provided an update on the state of the financial markets as well as the total plan, noting the recent sell off in large tech stocks along with other, riskier assets. Mr. Brakebill announced the creation of a small cap quantitative portfolio and highlighted the 10-year returns for both corporate fixed income and real estate.

The Treasurer notified the Investment Committee of Assistant Treasurer Jill Bachus' retirement, describing her contribution to Treasury as world class. Treasurer Lillard adjourned the meeting at 10:02 am.

Respectfully submitted,

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

APPROVED:

**/s/ David H. Lillard, Jr. 3.29.19**  
David H. Lillard, Jr. Chairman  
TCRS Board of Trustees