

Minutes of the Meeting of the Investment Committee
May 14, 2019

The Investment Committee of the Tennessee Consolidated Retirement System (TCRS) met on May 14, 2019 in the State Capitol. The Honorable David H. Lillard, Jr., State Treasurer, called the meeting to order at 10:00 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. Additional attendees included: Michael Brakebill, Chief Investment Officer; Derrick Dagnan, Deputy Chief Investment Officer; Daniel Crews, Director of Private Equity; Grant Leslie, Senior Portfolio Manager; Stephen Wright, Senior Real Estate Analyst; Andrew Messier, Compliance and Risk Analyst; Heather Iverson, Assistant General Counsel; William Wood, Comptroller's Office; Rick Newton, F&A Division of Budget.

Treasurer Lillard began the meeting by asking Mr. Daniel Crews to present a private equity transaction for approval.

Mr. Crews recommended a commitment of up to \$100 million to New Enterprise Associates 17, L.P. Mr. Crews highlighted that New Enterprise Associates ("NEA") is an existing relationship for TCRS, having invested in Fund 16. NEA is highly respected and considered one of the best venture capital firms in the world with a forty year track record. Mr. Michael Brakebill asked Mr. Crews to highlight the performance of NEA. Mr. Crews stated that TCRS is looking for venture capital firms that can deliver great net returns, which NEA has consistently delivered. He discussed key aspects of a favorable operational and financial due diligence process including key terms, the firm, team, strategy, and items of concern.

Treasurer Lillard then motioned to approve the transaction which was seconded by Secretary Hargett. The recommendation to commit up to \$100 million to NEA 17 was approved unanimously by voice vote.

The Treasurer then asked Mr. Grant Leslie to present a private equity transaction for approval.

Mr. Leslie recommended a commitment of up to \$150 million to Great Hill Equity Partners VII, L.P. Mr. Leslie noted that Great Hill is an existing relationship for TCRS, having invested in Fund VI in 2016. Great Hill is focused on growth equity and acquires controlling and non-control positions primarily in fast growing U.S. companies in the technology, business services, and consumer services sectors. While Great Hill Equity Partners Fund VI is still in the early stages of the fund, the net IRR since inception has produced favorable returns. Mr. Leslie reviewed key diligence items including the firm, strategy, ownership, team, history, terms and areas for concern. He noted a high degree of team continuity and that the strategy and portfolio construction of the prior fund has been in line with expectations. He then discussed the growth equity strategy in relation to the overall portfolio construction of the Private Equity Portfolio and mentioned that Staff has faced challenges sourcing attractive relationships that would expand the growth equity exposure.

Treasurer Lillard then motioned to approve the transaction which was seconded by Commissioner McWhorter. The recommendation to commit up to \$150 million to Great Hill VII was approved unanimously by voice vote.

The Treasurer then called on Mr. Michael Brakebill to review the TCRS portfolio and the current state of the financial markets. Mr. Brakebill highlighted how the TCRS portfolio has taken steps to neutralize the equity allocation, by selling roughly \$1 billion in stocks over the past month. As of yesterday, the fiscal year to date for the TCRS portfolio was up 3.5% following the volatility in the market over the past week. Mr. Brakebill then illustrated how the market environment has changed over the past months by examining interest rates and changes in the shape of the yield curve. From the end of October until mid-May, long interest rates have declined dramatically, but short rates are up on central bank actions and today much of the yield curve is at or near inversion. He highlighted that historically inversions of the 10-Year Treasury compared to the 90 Day T-Bill yield curves usually precede recessions. Mr. Brakebill went on to elaborate that even though the U.S. market recently experienced an inversion it is certain that the U.S. economy is going into another recession. He explained that this movement in long interest rates could be an indication that the market feels that the long term economic growth outlook of the U.S. market has started to slow down. Mr. Brakebill concluded with these fundamental interest rates showing signs of uncertainty TCRS needs to be cautious going forward.

Seeing no further comments, Treasurer Lillard adjourned the meeting at 10:30 AM.

Respectfully submitted,

/s/Michael Brakebill
Michael Brakebill
Chief Investment Officer

APPROVED:

/s/ David H. Lillard, Jr. 6.28.19
David H. Lillard, Jr. Chairman
TCRS Board of Trustees